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Print Edition — January 22nd 2005

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Companies today are exhorted to be "socially responsible". What, exactly, does this mean? ... More on this week's lead article

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Politics this week

Jan 20th 2005
From The Economist print edition

AFP

Bush's big day

As *The Economist* went to press, **George Bush** was due to be inaugurated for a second term as president of the United States. Earlier in the week, Mr Bush said that his re-election last November was a ratification of his policy on Iraq. He also said he had a "big agenda in mind". An opinion poll conducted by the BBC in 21 countries found that most respondents expected him to have a "negative" impact on peace and security.

See article

Condoleezza Rice faced a grilling on Iraq and terrorism from the Senate during her confirmation hearings to be secretary of state. Ms Rice said policy on Iraq would be reviewed after the upcoming elections there, but refused to say when American troops would come home.

Army Specialist Charles Graner was sentenced by court-martial in Texas to ten years in prison for mistreating and sexually abusing Iraqi prisoners in **Abu Ghraib** jail. Mr Graner is said to be the ringleader in the scandal. Meanwhile, three British **soldiers** faced a court-martial in Germany for allegedly abusing Iraqi prisoners in Basra, in the south of the country. Several gruesome photographs emerged showing the mistreatment of prisoners by the soldiers.

See article

The woman at the centre of the landmark 1973 Supreme Court *Roe v Wade* decision that legalised **abortion** petitioned the court to change its mind. Norma McCorvey now says that abortion procedures may harm women.

California held its first **execution** for three years. Last-minute appeals for clemency by Donald Beardslee, convicted of murdering two women in 1981, were rejected by Governor Arnold Schwarzenegger.

Unfriendly neighbours

Venezuela's president, Hugo Chávez, suspended trade agreements with Colombia and recalled his country's ambassador to Bogotá in an escalating dispute over a leader of the FARC guerrillas who was abducted in Caracas last month and handed over to police in Colombia.

See article

In **Mexico**, troops backed by tanks and helicopters re-took control of the country's main maximum-security prison after rival drug traffickers had taken their feud to the jail, killing one inmate.

Bolivia's weak government, facing protests over fuel price rises, partly reversed them.

See article

Canada's immigration minister resigned over accusations of impropriety. She gave a visa to a Romanian stripper who worked on her election campaign. She is also alleged to have offered a visa to a fraudster who was a donor to the ruling Liberal Party (she denies the allegation).

See article

Pensioners see red

AP

Russia saw the biggest protests of Vladimir Putin's presidency. Most of those on the streets were pensioners angry at plans to replace Soviet-era benefits-in-kind with cash payments. An embattled government offered the pensioners more money.

See article

Railway and energy workers, along with doctors, civil servants and teachers, went on strike in **France**. All were protesting at government plans to change working conditions, relax the 35-hour week and cut public-sector jobs.

Denmark's centre-right prime minister, Anders Fogh Rasmussen, called an early election for February 8th.

Europe's finance ministers came closer to agreeing reforms of the **stability and growth pact**. But they dismissed a proposal by Germany's chancellor, Gerhard Schröder, to exempt large chunks of public spending from the stability pact's rules on deficit ceilings.

See article

King Juan Carlos, **Spain's** monarch, made a state visit to **Morocco**, the first for 25 years. Relations between the countries had deteriorated somewhat since Morocco occupied an uninhabited Spanish island that sits off its coast in 2002.

Death of a reformer

Zhao Ziyang, a former prime minister and general secretary of China's Communist Party, died. He was purged from the party in 1989 for opposing a crackdown on the Tiananmen students.

See article

The leader of **Australia's** opposition Labor Party, Mark Latham, resigned citing ill-health. Last October, he led his party to its fourth consecutive election defeat.

See article

Indonesia said it would need $4.5 billion to rebuild the province of Aceh, which was devastated in last month's tsunami. The estimate of the number of people killed in the country as a whole was raised to over 166,000, increasing the global toll to over 220,000.

A vast report on the UN's **Millennium Development Goals** called on the rich world to give more money in aid, arguing against the notion that most aid tends to be wasted. But aid, it said, must be better designed, and given mainly to well-governed countries.

See article

The violence continues

Attacks by **Iraqi** insurgents ahead of a general election due on January 30th continued apace. A series of suicide bombs went off in or near Baghdad, one of them outside the Australian embassy killing 26 people on January 19th alone. Kurdish politicians were reassured that many Kurds who had been displaced by Saddam Hussein would be able to vote in the disputed city of Kirkuk.

See article

The *New Yorker* claimed that American special forces were already on the ground in **Iran**, identifying nuclear facilities that could be targeted to prevent Iran from developing a nuclear bomb. The American administration said the report was untrue. Iran said it had secret means of raining “fire and death” on an aggressor.

See article

An Iranian human-rights lawyer, **Shirin Ebadi**, a winner of the Nobel peace prize, was summoned to court for complaining about the solitary confinement of Iranian dissidents, then told no charge would be made against her.

Reuters

The new Palestinian president, **Mahmoud Abbas**, got off to a bumpy start, as Palestinians escalated their attacks in the Gaza strip and Israel insisted that he stop them.

The fragile peace in **Congo** came under threat, when a leading member of the country's transitional coalition government, Jean-Pierre Bemba, accused the president, Joseph Kabila, of failing to prepare for elections. The UN's high commission for refugees said that some 20,000 eastern Congolese had fled to Uganda.

See article

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Business this week

Jan 20th 2005
From The Economist print edition

Airbus versus Boeing

Airbus unveiled its **A380 super-jumbo** passenger jet. The double-decker jet will have an initial capacity of 555 customers and a range of 15,000km (9,320 miles). Meanwhile, **Boeing** revealed that it will end production of its short-haul 717 jet in 2006.

See article

Two high-profile court cases got under way in New York. Bernie Ebbers, the former CEO of **WorldCom** (now MCI), pleaded innocent to charges that he orchestrated an $11 billion accounting fraud in 2002 that resulted in the biggest ever corporate bankruptcy. Two former **Tyco** executives, chief executive Dennis Kozlowski and chief finance officer Mark Swartz, are pleading not guilty in their retrial for the alleged looting of $600m from the conglomerate.

See article

General Motors said its net fourth-quarter profit had fallen to $630m, compared with $1 billion in the previous fourth quarter. The figure included a write-down of its stake in Italy's Fiat Auto. Meanwhile, Fiat's chairman, Luca di Montezemolo, said his company was “absolutely certain” it had the right to sell its car unit to GM, a move the Detroit giant is trying to avoid.

Krispy Kreme Doughnuts replaced its chief executive, Scott Livengood, less than two weeks after the company said that a planned restatement of financial results would have a bigger impact on net income than had previously been thought. Stephen Cooper, who has overseen Enron's restructuring, becomes CEO.

Wahoo!

Yahoo! reported net income of $373m for the three months ending December 31st, compared with $75m for the same period in 2003. The jump in profits resulted partially from a sharp increase in revenue from advertising on Yahoo!'s internet search engine and a $185m windfall from sales of shares in Google. Meanwhile, **Verizon Communications** said it was going to team up with Yahoo! in offering a high-speed internet portal.

In a keenly awaited verdict, a tribunal partially upheld an appeal by **Legal & General**, a British insurer, against a £1.1m ($1.9m) fine imposed in 2003 by the Financial Services Authority. The tribunal said that the FSA had proved mis-selling of endowment policies, bought by Britons in the hope of paying off their mortgages, in only a handful of cited instances.

See article

Foster's, an Australian drinks group, commenced a A$3.1 billion ($2.35 billion) takeover bid for Southcorp, the owner of several famous brands of wine. Southcorp urged shareholders to reject the bid, which would create the world's largest premium wine producer. Foster's has bought an 18.8% stake in Southcorp.

Sony Ericsson produced a year-on-year increase in net profit of 28% for the fourth quarter to December. The company sold 12.6m mobile phones in the period, an increase of 56%. Two-thirds of phones sold by the group include the ubiquitous, and annoying, built-in camera.

The future is Oracle

Oracle, promised to support until 2013 customers who continue to use the competing products of PeopleSoft, which it acquired in December. But products that amalgamate the two firms' programs will be introduced after 2008. Last week, Oracle announced 5,000 job cuts across both recently merged firms.

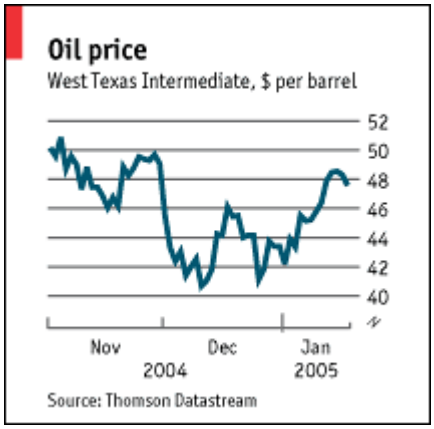
Several of America's largest banks, including Wells Fargo and National City, posted strong fourth-quarter results. **Bank of America,** boosted by the acquisition of FleetBoston last year, led the way, in dollar terms, recording a 41% increase in earnings. However, **J.P. Morgan Chase** did not join the party. The bank's fourth-quarter earnings fell 11% owing to charges related to its merger with Bank One.

America's core **inflation** rate, which excludes food and energy, rose by 0.2% in December. The 12-month rate to December was 2.2%, the highest it has been since 2001, but below an average of 2.8% for the previous 14 years.

Pfizer announced that annual sales of its Celebrex drug had risen by 75% to $3.3 billion; the company's total sales were $52.5 billion. But the pharmaceutical giant warned that future sales of the drug could suffer if America's Food and Drug Administration raised safety concerns in a review next month. Last week, the FDA dealt a blow to **Merck** and **Johnson & Johnson** by not allowing the sale of Mevacor, which reduces cholesterol, without a prescription, on safety grounds.

Roll out the barrels

Oil prices crept up to within a whisker of $50 per barrel, the highest they have been since late November 2004 and a rise of 17% since the start of this year. A report issued by the International Energy Agency warned that oil prices could be volatile in 2005, because production and refining capacity are tight.



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Capitalism and ethics

The good company

Jan 20th 2005
From The Economist print edition

Companies today are exhorted to be "socially responsible". What, exactly, does this mean?

IT WILL no longer do for a company to go quietly about its business, telling no lies and breaking no laws, selling things that people want, and making money. That is so passé. Today, all companies, but especially big ones, are enjoined from every side to worry less about profits and be socially responsible instead. Surprisingly, perhaps, these demands have elicited a willing, not to say avid, response in enlightened boardrooms everywhere. Companies at every opportunity now pay elaborate obeisance to the principles of corporate social responsibility. They have CSR officers, CSR consultants, CSR departments, and CSR initiatives coming out of their ears. A good thing, too, you might think. About time. What kind of idiot or curmudgeon would challenge the case for businesses to behave more responsibly? Thank you for asking.

Cynics and believers

The practices that caring, progressive CEOs mention when speaking at conferences on CSR come in all shapes and sizes. Treat your employees well; encourage loyalty among your customers and suppliers; avoid investing in "unethical" industries, or in countries where workers are paid low wages or denied decent benefits; take care to save energy and recycle used envelopes; and so on. The range of such policies makes it hazardous to generalise. Some of them advance the interests of shareholders and of the wider world as well; others make everyone, except the office bureaucrats paid to dream them up, worse off. Motives vary too. Some CSR advocates are cynics: they pay lip service to the idea but are chuckling quietly. Others are true believers, born-again champions of a kinder, gentler capitalism (see our survey in this issue).

The one thing that all the nostrums of CSR have in common is that they are based on a faulty—and dangerously faulty—analysis of the capitalist system they are intended to redeem. Admittedly, CSR is now so well entrenched and amply funded that to complain about it may be pointless. We are concerned that it may even be a socially irresponsible use of scarce newsprint. Nonetheless, if businessmen had a clearer understanding of the CSR mindset and its defects, they would be better at their jobs and everybody else would be more prosperous.

Simply put, advocates of CSR work from the premise that unadorned capitalism fails to serve the public interest. The search for profit, they argue, may be a regrettable necessity in the modern world, a sad fact of life if there is to be any private enterprise. But the problem is that the profits of private enterprise go exclusively to shareholders. What about the public good? Only if corporations recognise their obligations to society—to "stakeholders" other than the owners of the business—will that broader social interest be advanced. Often, governments can force such obligations on companies, through taxes and regulation. But that does not fully discharge the enlightened company's debt to society. For that, one requires CSR.

This is wrong. The goal of a well-run company may be to make profits for its shareholders, but merely in doing that—provided it faces competition in its markets, behaves honestly and obeys the law—the company, without even trying, is doing good works. Its employees willingly work for the company in exchange for wages; the transaction makes them better off. Its customers willingly pay for the company's products; the transaction makes them better off also. All the while, for strictly selfish reasons, well-run companies will strive for friendly long-term relations with employees, suppliers and customers. There is no need for selfless sacrifice when it comes to stakeholders. It goes with the territory.

Thus, the selfish pursuit of profit serves a social purpose. And this is putting it mildly. The standard of living people in the West enjoy today is due to little else but the selfish pursuit of profit. It is a point that Adam Smith emphasised in "The Wealth of Nations": "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." This is not the fatal defect of capitalism, as CSR-advocates appear to believe; it is the very reason capitalism works.

Maybe so, those advocates might reply, but perhaps the system would work even better if there were a bit more benevolence in the boardroom and a bit less self-interest. In some cases, that might be so, but in general (as Smith also noted) one should be wary of businessmen proclaiming their benevolence. A question to ask of all outbreaks of corporate goodness is, who is paying? Following the Indian Ocean tsunami, many companies made generous donations to charities helping the victims. There could be no worthier cause—but keep in mind that, in the case of public companies, the managers authorising those donations were giving other people's money, not their own. Philanthropy at others' expense, even in a cause as good as that one, is not quite the real thing.

Pernicious benevolence

Unfortunately, tainted charity is certainly not the worst CSR can do. For instance, in the name of socially responsible conduct—also to deflect embarrassing criticism from anti-trade NGOs and to curry favour with ill-informed consumers—some multinational firms have proudly withdrawn from investments in developing countries where labour practices fall far short of western standards. This is a pernicious kind of benevolence. The policy may in fact be profit-maximising, for the reasons just noted, but as a rule it will harm the people it is supposedly intended to help: the people in the poor countries concerned, who would have benefited either from employment at higher-than-prevailing wages or from the knock-on economic effects of inward investment.

All things considered, there is much to be said for leaving social and economic policy to governments. They, at least, are accountable to voters. Managers lack the time for such endeavours, or should do. Lately they have found it a struggle even to discharge their obligations to shareholders, the people who are paying their wages. If they want to make the world a better place—a commendable aim, to be sure—let them concentrate for the time being on that.

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China

The lost reformer

Jan 20th 2005
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Zhao Ziyang goes to his grave with his big question still unanswered

AP

HU YAOBANG was the general secretary of the Chinese Communist Party from 1980 until 1987, when, having lent an overly sympathetic ear to students who wanted political reform, he was sacked. Two years later, he died: and the students flocked to Tiananmen Square in the heart of Beijing to mourn him. The mourning turned to meeting, the meeting became a demonstration, and within days the vast space was filled with thousands of angry protesters, commandeered buses, banners, placards and music. It was the most direct challenge to the party's authority in the history of the People's Republic: and in the end, the Communists crushed it with great brutality. Only one man within the leadership was prepared to acknowledge openly that the students were patriots with legitimate grievances that the party needed to listen to: Zhao Ziyang, who had replaced Hu as general secretary. He was sacked from all his positions, placed under house arrest, and has never since been seen in public.

This week, Zhao Ziyang died too (see article). There has been no rush to mourn him at Tiananmen, or to renew the calls for reform that have been made periodically on that spot for hundreds of years. Yet Mr Zhao, like Hu, had come to believe that political reform was an essential part of China's modernisation—even more important, he felt, than economic reform. One reason for this reluctance to mourn is a practical one. Since 1989, security around the square has been tightened: it would take great courage to defy the authorities again. But a deeper reason is also at work. Liberal observers of China must, if they are honest, grapple with the uncomfortable fact that in booming China the desire for democracy appears to be blunter than it once was.

Do what you like, but leave us in charge

The last 15 years have seen the playing out of a grand bargain in China. In return for preserving their monopoly on political power, the Communists have been prepared to cede almost everything else. By giving free rein to private businessmen, China has achieved average annual economic growth in excess of 9%, enough to double incomes in eight years. Inefficient state-owned businesses are still greatly favoured, particularly by easier access to credit via the stockmarket or loans from state-owned banks. But never before in China has an aspiring entrepreneur found it so easy to become rich—and in few countries are there so few restrictions in his way. Foreign liberals might regret the lack of political idealism of China's young, but the average Beijing student is nowadays probably keener to set up his own company or find a job with Goldman Sachs than to go on hunger strike for democracy. Indeed, China's previous president, Jiang Zemin, found a clever way to bring these new capitalists on side, by allowing bosses to become members of the Communist Party. So long as so many people continue to get rich so fast, China's sporadic strikes and demonstrations do not seem likely to evolve into a fresh challenge to the Communist Party's right to rule.

However, it is not just wealth that has dulled the appetite for democracy. The Communist Party has also greatly extended personal freedoms in China. In 1989, this was a puritanical country where officials told you where to live, whether to marry and who not to talk to. That apparatus of control has gone. Life, for the young especially, is simply much more fun than before. And the thaw is not limited to the purely private sphere. In significant ways, China has become a more pluralistic society—though there are clear limits that few dare to breach. The press is much freer, as long as it sticks to exposing corruption or criticising particular policies, and refrains from attacking top leaders or the communist system. Pressure groups and non-governmental organisations operate quite freely, again within strict, known limits. It is perfectly possible to sit in a university office and discuss the need for competitive democratic elections. But attempt to form a political party to contest them, and you court a long prison sentence.

These two kinds of liberalisation, both highly qualified, have allowed China's leaders to claim they have taken account of Mr Zhao's belief that political and economic reform needed to walk hand-in-hand (see article). But the Tiananmen massacre coincided with the collapse of Communist power all over eastern Europe in 1989, leaving China's leaders convinced that by introducing democracy they would condemn China to the same fate as the Soviet Union. Hu Jintao, China's new president and party general secretary, has been no exception. Because he is young by Chinese leadership standards, and previously ran the Communist Party School in Beijing, where liberal ideas are openly debated, some onlookers had hoped that he might push for cautious political reform, perhaps allowing elections for lower-ranking party or state posts. He has not. China is now arresting more dissidents—often, these days, people who post forbidden opinions on the internet—than during the last years of Mr Jiang's rule.

How long can the party get away with this? Authoritarians often claim that democracy impedes development and that only a firm hand can transform a nation. Liberals retort that a free and open society is essential for the rational decision-making and exchange of information that are the basis of modern capitalism. Elsewhere in East Asia, notably in Taiwan, South Korea and Thailand, economic reform has invariably forced the pace of political reform. As people get richer, they tend to demand a say in how their money is spent.

Though China looks like a counter-example, it may not be. Taiwan and South Korea did not start serious political reform until 1987, by when both were several times richer, in real terms, than China is now with its GDP per head of around $1,200. But that might not give China's leaders as much breathing-room as they hope for. In great swathes of China, incomes are far higher: Beijing and Shanghai already feel as rich as the Seoul or Taipei of 20 years ago. In much of the countryside, incomes are much lower. Nobody can tell what political forces may yet be unleashed by this growing wealth and inequality. Zhao Ziyang lost the argument in 1989. But the big question he asked about the future of China still awaits an answer.

Europe's stability pact

A case for nationalism

Jan 20th 2005
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European governments need more fiscal freedom, not less

Getty Images

POLITICIANS are not noted for consistency. Consider two proposals by the German chancellor, Gerhard Schröder. Last year he chastised central Europeans for their low tax rates, suggesting that countries with below-average corporate taxes might forfeit European Union subsidies. Yet this week, when Mr Schröder demanded that the EU's near-defunct stability and growth pact be relaxed by exempting swathes of public spending from its budget-deficit ceilings, he added in a *Financial Times* article that "intervention by European institutions in the budgetary sovereignty of national parliaments [should be] permitted only under very limited conditions."

Most EU countries agreed with Mr Schröder's first suggestion; many have loudly denounced what they call "unfair tax competition". But almost all EU finance ministers, even those who say they want a more flexible stability pact, were quick to criticise his second, insisting on the need for strong, centrally enforced rules and greater co-ordination. As so often in the EU, these responses are precisely the wrong way round. Mr Schröder was misguided in making his first suggestion, but he is essentially right in his second.

What connects claims of unfair tax competition to rows over the stability pact is the notion that it is right for Brussels to interfere in national governments' decisions on taxes and spending. Yet this is a bad idea, on both political and economic grounds. Fiscal policy lies at the heart of democratic electoral politics, which is conducted at the level of nation-states. If an elected government wishes to cut taxes, boost spending or even run a bigger budget deficit, it is a travesty of democracy if the European Commission stops it.

Some argue that central rules are needed on economic grounds, to underpin the euro or to stop a

race to the bottom in taxes. Actually, the opposite is true. Because euro members have shed their power to pursue independent monetary and exchange-rate policies, they need more fiscal independence, not less. As for fears of a race to the bottom in tax rates, there is little sign of this happening. On the contrary, most taxes in the European Union, including those in central Europe, are still too high. It would in any case be pointless to impose higher corporate-tax rates in the EU, for foreign (and domestic) investment can easily shift to lower-tax jurisdictions that are beyond the reach of Brussels.

What, finally, about the worry that inspired the stability pact in the first place: the need to stop profligate euro members running up big deficits at others' expense? Again, one answer is that it is not happening: despite the stability pact's near-demise, European fiscal consolidation has mostly continued. But the bigger point is that financial markets are quite able to exert discipline, even over euro members: witness the credit downgrade suffered by Italy last year. The only rule that is essential is a reaffirmation that neither the European Central Bank nor any other EU body will stand behind a national government's debt—so that if it gets into trouble, the pain will be felt at home, not abroad.

There is, in short, a good reason why most governments have insisted on retaining national vetoes over EU tax plans. Taxes should be fixed nationally, not supranationally. And what Europe needs are lower taxes and more tax competition, not higher taxes and more tax harmonisation. Mr Schröder, and indeed other European leaders, should follow the logic of his newspaper article this week.

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Abuse of prisoners

Hearts, minds and shameful pictures

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From The Economist print edition

It is not enough just to punish the immediate perpetrators of military abuses

AFP

PICTURES, as has been known for thousands of years, can possess a power that mere words struggle to match. That was why, despite months of rumbling complaints from human-rights organisations, it took the photographs of abuse of prisoners at Iraq's Abu Ghraib jail to send people's blood boiling about the behaviour of American troops and, by extension, about what was going on in Guantánamo Bay. That is also why the appalling photographs that were released this week by a British court-martial sent the blood to boiling point—even though the offences by British soldiers near Basra that they illustrated had also been known about for some time. The worldwide distribution of such images at least makes America and Britain a true coalition of the shameful. Yet the allies are together in another way too. Both are evading proper accountability for what has occurred.

Nevertheless, America and Britain do also share a common line of defence. It is that soldiers are trained to use violence, and that when they are sent into action a few abuses will always occur. Such things have happened in every war, from Vietnam to Iraq, from the Balkans to the UN peacekeeping operation in Congo, and they happen with domestic policing too, whether in Northern Ireland or Los Angeles. What matters is how they are then dealt with. As Colin Powell, the outgoing American secretary of state, said after Abu Ghraib: “Watch how America will do the right thing.”

If you think the “right thing” is to find and punish those directly involved with the abuse, then that is indeed what America has done. The conviction and sentencing on January 15th of Specialist Charles Graner, said to be the ringleader for the Abu Ghraib abuses, represented just that (see article). That is also what Britain is doing: the court-martials at a British base in Germany from which this week's pictures emanated are still under way, but their aim is the same (see article).

Like his American equivalents before him, General Sir Mike Jackson, head of the British army, made a noble public statement condemning the abuses shown in the photos, but saying that they were not typical of his troops, whether in Iraq or elsewhere.

Right, but not enough

Yet, although such investigation and punishment is necessary, it is far from sufficient. It is insufficient on two grounds. One is the need to ensure that the danger of such abuses being repeated is minimised by eliminating any systemic weaknesses of discipline or command. The other is the need to counter the reputational and political damage the abuses have caused. So far, the American and British governments have failed on both of those counts.

In one sense, America has handled the fallout from the abuses better than Britain. It at least responded by setting up an investigation into what lay behind them, the results of which were made public. Britain has not, relying on the typically British tactic of saying, in effect, “trust us, we're decent fellows and we won't let it happen again.” Given that the abuses show precisely that some soldiers are not decent fellows, and given that in the court-martial it has been disclosed that the abusers' quarter master gave an order capable of being interpreted as a licence for violence, such a reaction is not good enough. An inquiry, with publicly disclosed evidence and results, should have been set up long ago—and should still be.

If America dealt with its problem more openly, however, it has compounded the damage to its reputation. In essence, it ignored the findings of the Abu Ghraib enquiry conducted by Major-General Antonio Taguba, in which he spoke of “systemic” problems at Abu Ghraib, since punishment was not imposed far up the chain of command. It has also sought to ignore consistent evidence that torture has been used in Guantánamo and to avoid confronting the unjust legal limbo in which prisoners there have been kept for almost three years. And the man who commissioned memos justifying torture, Alberto Gonzales, has been punished by being nominated by George Bush as his new attorney-general. He is likely to be confirmed even with the support of Democrats. They don't appear to care about his association with torture. They support him simply on the grounds that he is a Latino.

The worst sin, though, is the one that goes right to the top. Neither Mr Bush nor Tony Blair is willing to accept blame for what has occurred, nor to demand accountability for it from their cabinets. That is to imply that, for all their condemnations of the abuses, they think them politically unimportant. At least in international politics, they are wrong.

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The Financial Services Authority

Regulator, heal thyself

Jan 20th 2005
From The Economist print edition

Teething troubles at Britain's financial regulator

TO BE effective, a financial regulator needs three things: a sound operating structure; sensible procedures and competent staff; and credibility so that wrongdoers are properly punished and others deterred. There are worrying signs that the Financial Services Authority (FSA), now Britain's only financial regulator, is falling short on the latter two counts.

This week an independent tribunal made stinging criticisms of the agency's handling of a case involving the alleged mis-selling of endowment mortgages by Legal & General, a big insurer (see article). While accepting the FSA's verdict that there had been mis-selling, the tribunal nevertheless lambasted the way the regulator reached its decision to fine the insurer £1.1m ($1.9m). This embarrassing ruling came only weeks after the FSA reached a settlement over a long-running scandal involving so-called split capital investment trusts. Consumers lost more than £600m on funds that were sold as low risk, then turned out be high risk. After months of obstructing the regulator, 18 banks and brokers agreed to pay a modest £194m in compensation, but admitted no guilt.

These cases have put the FSA on the back foot. There have been calls for its chairman and chief executive to resign or be sacked by the government. There have been suggestions that the whole idea of creating a single financial regulator is flawed and that a few specialist agencies would do a better overall job. Voices in the City of London are even muttering about the FSA's regulatory regime becoming a handicap that might allow rival financial centres to steal business.

All of these should be ignored, for now. The FSA is a young body that deserves more time to sort out what probably amount to teething, rather than fundamental, problems. Its full unitary powers came into force only this month, and it is far too early to condemn the effort to bring together once disparate regulatory functions under a single umbrella. That combination has been difficult, and it has mostly been done well. But this does not mean the FSA should be complacent. It has serious failings that it must address.

Start with its procedures. These seem inadequate. The tribunal this week pointed out that the case against Legal & General relied on too little evidence and included arbitrary changes of position. That is damning: a regulator cannot use flawed procedures without destroying its effectiveness. Similarly, the FSA relies on continuous monitoring of financial-services companies to keep it informed and allow it to issue warnings when necessary. If the monitoring is poorly constructed, as many argue it is, then the FSA will find itself struggling. Big investment banks claim, with some justification, that their risk-taking is unnecessarily micro-managed by the FSA, which should focus more on the systemic implications of one of them going bust. By contrast, the long-term balance-

sheet risks being run by big providers of retail products, including life insurers, are not monitored closely enough. The same is true of the increasingly complicated products they sell to (often ignorant) consumers. The FSA's bosses need to make sensible changes in both disciplinary and monitoring procedures and then explain clearly what the new rules are.

Getting it right

The question of competence is more complex. It would be too harsh to conclude that the FSA is incompetent. But it cannot escape a problem faced by many regulators: that the salaries which it can offer are much lower than those offered by the industry it oversees, meaning that the top talent is usually on the other side. The agency's sharpest critics say it has plenty of staff but an insufficient aggregate IQ. The jibe hurts because, in an era of highly complex financial engineering, it has an element of truth. Over time, however, the regulator's staff will learn. And better procedures will make the FSA's competence (or lack of it) more evident. The long-term trick will be to retain good staff so that they can apply their knowledge to protect consumers and markets over long periods. That might mean introducing tighter rules on transferring from the FSA to jobs with regulated firms, something its founding boss and a head of enforcement have done with alarming speed.

But the biggest challenge for the FSA is to establish the credibility it currently lacks, and urgently needs in order to serve the public interest. If it genuinely tackles the kind of problems that initially dog any big project, then there are still good reasons to believe that the bold experiment of creating a unitary financial regulator in London will be judged a success, perhaps even by those it is regulating.

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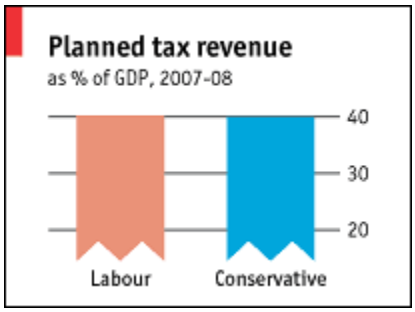
Britain's Conservative Party

Spot the difference

Jan 20th 2005
From The Economist print edition

The Tories' modest tax plans are bad for both the country and the party



OLIVER LETWIN, Britain's shadow chancellor, is a very agreeable chap. When he was shadow home secretary he agreed, to the irritation of interviewers trying to stir up a bit of argument, with many of the government's law-and-order policies. Now that he is in charge of the Conservatives' thinking on money matters, he agrees with many of the government's economic and fiscal policies.

There is a lot to be said for an opposition politician who does not automatically kick the minister in the teeth every time he opens his mouth. Even governments sometimes do sensible things. Mr Letwin has, for instance, decided to adopt Gordon Brown's "golden rule"—that the government should borrow only to invest over the course of the economic cycle. That's a fine idea. The rule, if properly enforced, is a reasonable fiscal discipline, and if successive governments stick to it, it is more likely to work. But Mr Letwin is taking the business of agreeing with the government too far.

Follow my leader

On January 17th, the Tories published figures on their plans for taxation and spending in the years to 2007-08. They reckon that they can save £35 billion ($66 billion) of government spending, mostly through cutting "waste" and partly through cutting back on a few government activities. That's no surprise. Oppositions tend to say that governments waste money, and Tories tend to want to cut back on Labour governments' activities. What's odder is what they plan to do with the money: £4 billion is to be used for tax cuts, £8 billion to reduce borrowing, and the rest will be spent.

The reason why the Tories intend to spend most of what they save, rather than give it back to taxpayers, is that they have accepted the government's plans for public services. They say they will stick to the government's plans to go on increasing spending on core services such as health and education. So, while Labour would raise the tax burden from 37.5% of GDP last year to 40.2% by 2007-08, the Tories would raise it to 39.9%—a whole third of a percentage point less.

That Mr Letwin refuses to present voters with an alternative to a tax-and-spend government is a bad thing for the country. He understands very well the economic and social consequences of high taxation. Yet even those who do not share this newspaper's preference for a smaller state would agree that democracy is supposed to offer choice, and that when the opposition fails to oppose the government on the most important issue in modern politics—the size and role of the state—it is not doing its job. It is gently ironic that the Tory party preaches the virtue of "choice" for

consumers of public services but does not offer the stuff to voters.

The more interesting question is whether Mr Letwin is serving the Tory party's interests. The Tories are full of gloom (see article) they are doing badly in the polls, and everybody thinks they are bound to be defeated at the general election expected in May. Mr Letwin's supporters say that the polls suggest that tax cuts are not a priority for voters and that the party is just doing what Labour did to make itself electable in 1997. As Labour committed itself to Tory spending plans and thus rid itself of its reputation for managing the economy badly, so the Tories are committing themselves to Labour spending plans to rid themselves of their reputation for funding the public services badly.

But the Conservatives' lower-tax policies served taxpayers well. The government's high-spending habits are unlikely to—as voters seem to be noticing. According to a YouGov poll for *The Economist* last autumn (see article), less than a fifth of respondents thought that the extra money the government has spent on public services had made their lives better. When the tax rises that are inevitable after the next election start to hit voters, they are likely to feel cooler still towards high taxation. The Tories ought to get in first, and make the case for proper tax cuts before people realise that that is what they want.

The Tories' problem is that failure has made cowards of them. They have been hypnotised by Labour's success. But they will not win the respect of voters by agreeing with the government: they need to lead opinion, not follow Labour.

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Letters

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From Economist.com

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Saudi Arabia's oil

SIR – Oil prices came down in 2004 mainly because of Saudi Arabia's additional supplies, not a decrease in demand ("Big oil's biggest monster", January 8th). Moreover, Saudi Arabia sustained its oil production in spite of two regional wars including scud-missile attacks on its operations, offshore mines, and attacks on its tanker traffic. By comparison, the current terrorism is mainly a callous threat against expatriates rather than the kingdom's oil operations. The question is why excess capacity must be the kingdom's sole responsibility when the latest American EIA statistics show that 80% of the world's reserves are outside Saudi Arabia?

Sadad Husseini
Dhahran, Saudi Arabia

Climbing Ivy

SIR – You distort the reality of Harvard's admission of alumni children ("Ever higher society, ever harder to ascend", January 1st). The SAT scores of alumni children at Harvard are virtually identical to the student body average. Alumni children are admitted at higher rates than average in large measure due to self-selection: weaker candidates tend not to apply. We have also recently instituted a financial aid initiative. Families with annual incomes of less than $40,000 are no longer required to contribute to the cost of attending Harvard for their children and we have reduced the contributions expected of families with incomes between $40,000 and $60,000. It is the generosity of generations of Harvard alumni who have made this new policy possible and allow Harvard to offer financial aid to nearly 70% of its undergraduates.

William Fitzsimmons
Harvard Dean of Admissions
Cambridge, Massachusetts

SIR – Charles Murray pointed out 20 years ago that in earlier times there were many high-IQ people in almost all classes. But due to changes in marriage patterns and the meritocracy explosion, high IQs have clustered in the top class. He fretted then about the increase in inequality that this would bring.

Robert Wilson
New York

Mighty Luxembourg

SIR – Luxembourg can claim a very long and respectable international record (Charlemagne, January 8th). It has produced not only presidents of the European Commission, but kings of Hungary and Bohemia, as well as three German emperors. The last of these, Sigismund, presided over the first and perhaps not the least successful European international convention, the Council of Constance (1414-18). In a prototypical compromise, two popes, including the first John XXIII, were deposed (another voluntarily resigned) and two heretics burnt; France and England remained at loggerheads throughout the proceedings, but the principle of settling international disputes by discussion was well and truly established.

Frank Welsh
Confolens, France

SIR – Luxembourg does indeed have a population equivalent in size to Fresno, but the European Union's population is much larger than America's. And as nobody in Britain, France, Germany, or even Belgium, pays the least attention to whomsoever runs Luxembourg (whereas even modest-sized American cities have suburbs with accountable elected mayors), perhaps better comparisons might be Henderson, Nevada, Hialeah, Florida, or Laredo, Texas. And if we discount for the low percentage of Luxembourgers who are actually citizens of their country, an even better parallel would be Rancho Cucamonga, California, or even Waterbury, Connecticut. Like many European capitals, Waterbury is a lovely old town, noted in part for its churches.

Rob Slocum
Stamford, Connecticut

Gross the younger

SIR – You say Albania's prime minister, Ramush Haradinaj, is the youngest in Europe at age 36 ("Young and wanted", January 1st). Stanislav Gross, prime minister of the Czech Republic, is 35 years old.

Matt Reynolds
Prague

Africa's women

SIR – In a year when the Nobel Peace Prize was awarded to a Kenyan environmental activist, Wangari Maathai, your coverage of wives and mistresses of African despots came as a surprise ("Strong stuff", December 18th). It is news to me that a common aspiration for African girls is to become one of the "big women" that you caricature. Growing up in Africa, I can assure you that the pursuit of academic excellence was a mantra for many of us. You parody a minority of African first ladies instead of recognising the achievements of a more substantial group of academic and professional African women. This is merely tiresome paternalism.

Clare Ngima Muhoro
Shippensburg, Pennsylvania

Miles to go

SIR – In your leader on frequent-flyer miles, you do not mention one of the greatest risks facing jet-setters, that of sovereign default ("In terminal decline?", January 8th). Were US Airways finally to fold, one of my largest stores of personal wealth would suddenly become entirely worthless. Compared with this threat, the declining dollar does not seem nearly so bad.

Cole Couture
New York

You'll go far, my son

SIR – Offshoring children already has effects in more ways than you suggest ("A modest proposal", December 18th). People in rich societies are having fewer children as they are unwilling to bear the cost of child-rearing in terms of marital commitment and lost wages. This will result in a future shortage of workers needed to support welfare programmes. To make up for this shortage countries are now increasing their numbers of young immigrants, who have been reared and educated at a much lower cost. If this isn't offshoring of child-bearing and child-rearing, what is?

Nimish Adhia
Chicago

SIR – Britain has a long record in offshoring its problems. Australia was a smart solution to overcrowded prisons and troublesome prisoners. And delinquent scions and illegitimate descendants of the nobility were sent as remittance men to the colonies, at a stroke removing blots on the escutcheons of those families and passing the problem to distant colonial authorities.

Clive Bruckmann
Bryanston, South Africa

SIR – We couldn't agree more with your solution of offshoring children. We sent one to live with a wealthy friend and the other to be raised by the London School of Economics. Both subsidiaries seem to be doing very well, growing at about 2% a year.

Shaul and Maxanne Ezer
Toronto

Free riders

SIR – It is indeed possible to drive from San Francisco to New Jersey on Interstate 80 "without paying a cent" ("The long and expensive road", January 8th). Alas, such behaviour would likely draw attention from the Illinois, Indiana and Ohio highway patrols, as I-80 is tolled in those states.

James Moyer
Columbus, Ohio

ONLINE ARTICLES

The following correspondence refers to articles published only online

Big Blue

SIR - IBM should be commended for its commitment to innovation in its recent move to forgo royalties on 500 of its active patents ("Big Blue becomes bountiful", Economist.com, January 11th). This company's goodwill should set the standard for businesses of the 21st century, particularly for the litigious giants of the pharmaceutical industry. While providing, or at least licensing, patents to their smaller rivals may cut into the profits of their billion-dollar "miracle drugs", it would be amazing to see an industrywide R&D effort to advance the causes they are

supposedly promoting. I am forced to ask: is the goal of these companies to retain more profits for themselves, or is it perhaps to be collectively striving towards cures for currently incurable diseases such as cancer, diabetes and AIDS?

Corporations should no longer be epitomised by that memorable phrase, "Greed is good". Instead, it is the goodwill that corporations such as IBM are exhibiting that will foster future innovation and, eventually, return profits to patent holders while providing added benefits for the consumer.

Adam Ludman
New York

Apple's iPod

SIR - It is a shame when such a trusted source as *The Economist* succumbs to the hype of the Apple marketing machine, declaring that the iPod Shuffle "looks (no surprise there) much cooler than any other flash player" ("The halo effect", Economist.com, January 12th). The iPod Shuffle is spartan in features and high in price compared to its competition. Apple's peculiar sect of consumers are quick to plonk down large amounts of money for anything that carries the company's logo. This too applies to the original iPod, which is not as feature-packed as its competition, but generally sells for twice the price.

Among the iPod Shuffle's superior competition are two South Korean companies: iRiver and Samsung. Both companies make devices that not only include colour displays, but are smaller and more fashionable that Apple's latest offering. Apple may have the upper hand in hype surrounding its device, but it has a way to go in technology.

Max Watson
Seoul

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Thabo Mbeki

A man of two faces

Jan 20th 2005 | JOHANNESBURG
From The Economist print edition

AFP

Africa's recovery largely depends on South Africa's president, Thabo Mbeki. But his influence abroad may be undermined by his intolerance at home

Get article background

HE IS no “big man”, but Thabo Mbeki is undoubtedly Africa's most powerful politician. Earnest, academic and remote, he lacks the charisma of his predecessor, Nelson Mandela. Yet, under him, the African National Congress (ANC) scooped a record 70% in last April's election, and his poll ratings are still high. He has another four years in office, presiding over Africa's richest and best-organised country.

Mr Mbeki is also determined to make Africa as a whole stable, democratic and less poor, and this is a good moment to try. He has the ear of world leaders. George Bush calls him America's “point man” in Africa, and seems inclined to channel more aid and help there. This week Britain's finance minister, Gordon Brown, toured the continent to promote Britain's Commission for Africa, a body set up last year to devise a plan for development. He wants annual aid from rich countries doubled to $100 billion and poor-country debt worth $80 billion to be written off, much of it to Africa's benefit: a scheme that meshes well with the UN's Millennium Development Goals (see article).

If donors increase their help, however, who will ensure that African countries respond? Only Mr Mbeki (who himself is still unknown to many Africans) stands much chance of influencing other leaders on the continent. And yet he has extremely worryingly autocratic and reactionary instincts, which are clearly on display in the way he runs his own country. If they are a clue to his future

leadership, then the hugely ambitious plans of the developed world can probably be consigned to the dustbin brimful with previous ideas to “Save Africa”.

Abroad, Mr Mbeki is willing to use his weight to knock heads together in the name of peace. It is often a losing game, but at least he tries. So far in 2005 he has been to Kenya, Sudan, Congo, Gabon and Côte d'Ivoire for peace parleys and truce-signings. Last year he made 22 trips inside Africa. If the continent is becoming less bloody, it is sometimes nothing to do with him (he played no part in the recent ending of conflicts in Angola, Senegal or Sierra Leone). But in other places—especially Congo (see article)—his efforts have made a difference.

Mr Mbeki can chalk up some personal successes. Last year, his spies foiled a coup plot against Equatorial Guinea. The year before, he helped organise the exit of Charles Taylor, a tyrant, from Liberia and helped reverse a coup in São Tome and Principe. He has hosted talks between warring parties in Burundi, Côte d'Ivoire and elsewhere. Most successful (though it did not stop the actual killing on the ground) were some, held in a casino, for Congo's warmakers in 2002. Against the odds, they agreed to a power-sharing government. Mr Mbeki then coddled warlords who muttered of going back to the bush. He even sent a fleet of limousines to Kinshasa to soothe grumpy ministers who had no official cars.

Mr Mbeki feels it is his business to micro-manage peace efforts all over the place. South Africa has 1,300 peacekeepers in Burundi and 1,500 in Congo; the country is a fairly big troop contributor to the United Nations, but is running short of soldiers not infected with HIV/AIDS (a scourge in which Mr Mbeki, as it happens, does not believe). Around 200 other troops have been sent as observers to Ethiopia, Uganda and Sudan. The diplomatic corps is also spread thin, as embassies open all over the continent. When an African is sought to oversee peace talks, it is usually Mr Mbeki who leaps in his presidential jet, *Inkwazi*, to answer the call.

His interventions can be controversial. On a recent trip to Côte d'Ivoire, where a civil war is ready to re-ignite, a banner draped from a hotel cheerfully declared “Welcome to Thabo Mbeki, a genuine African hero”. Diplomats and locals were less laudatory. Some said that Mr Mbeki had only a loose grasp of details of the conflict. Others said he was naive, too quick to take rotten politicians and rebels at their word. But at least he helps to get them talking.

Perhaps as important, he pushes the reform of regional bodies. In 2002, with one or two others, he orchestrated the death of the hopeless old Organisation for African Unity and the birth of the African Union. The new AU is far from perfect, but at least it favours democracy and has set up (or plans) potentially useful things, such as a standing African peacekeeping force, observer missions to conflict zones, a Security Council and a continental parliament.

The Southern African Development Community, a 13-country group, may yet become useful. Mr Mbeki leads efforts to give it some clout, especially in promoting democracy. He used it to nudge leaders in Zambia, Malawi, Namibia and Mozambique to quit office when their constitutions, or voters, said so. He has notably failed in Zimbabwe, which he likens to the intractable problems of Northern Ireland; though if Mr Mbeki stopped giving Robert Mugabe free electricity, Zimbabwe's appalling leader would surely not last long.

Redeeming the continent

His intimates say that Mr Mbeki has a fervour to do good in Africa. Why? Not just because it is a worthy end in itself, but because he despises the idea of a hopeless black continent. According to Mark Gevisser, his biographer, Mr Mbeki's extreme prickliness about racism makes him long to “redeem” Africa in the world's eyes.

His hopes for doing so are pinned on the New Partnership for Africa's Development, Nepad, launched in 2002. This sets out the conditions—respect for laws, good government, less corruption, and so on—necessary to attract private capital and aid to African economies starved of investment. Its content is mostly copied by Britain's Commission for Africa, but Nepad is Africa's half of the deal: Africans promise change in order to gain from the aid, trade and debt relief promoted by Britain.

But Nepad, or any successor plan for Africa's redemption, will work only if functioning states with reasonably good leaders (South Africa, Botswana, Senegal, Ghana, Mozambique) can be set apart from the awful ones (Zimbabwe, Swaziland and Sudan, to name but some). That means breaking a tradition, half a century old, of blind solidarity between African presidents, including Mr Mbeki's tolerance of Zimbabwe's appalling Robert Mugabe.

One potent idea in Nepad is “peer review”. This encourages African experts to visit each others' countries to investigate what economic and political reforms are needed and to offer constructive advice. So far, though more than 20 countries have signed up for peer review, only the better-run have had a visit from the experts. Nepad, or its successor, now needs to put pressure on recalcitrant places to submit to similar reviews and to take action.

Zimbabwe is the most glaring test-case; but Mr Mbeki balks at it. He resents what he sees as outsiders' obsession with Zimbabwe's white minority (now thought to number only about 20,000), and distrusts the opposition MDC, which he suspects may be a stooge for white interests. Instead, he tends to tell Zimbabweans to solve their own problems. This week, for the first time, came a change of tune: the secretary-general of South Africa's ANC, Kgalema Motlanthe, told Zimbabwe's government to stop restricting and intimidating the opposition. Without more pressure of this sort, Nepad's peer review will not count for much.

Elsewhere in Africa, Mr Mbeki tries to buy improvements. He chivvies investors to take risks in the continent, flying teams of tycoons with him to trouble spots such as Congo. South Africa makes up a third of sub-Saharan Africa's total GDP, and is also a big source of capital for the whole continent. The South African Reserve Bank estimates that South African firms invested $1.2 billion in the rest of Africa in 1996, which rose to $4 billion a year by 2001. Many of these now earn healthy profits in phones, construction, retailing and banking in other parts of the continent. Between 1994 and 2004, South African trade with the rest of Africa grew by more than 300%; between 1994 and 2003, exports to the rest of Africa rose from 8.6 billion rand a year to 38.8 billion ($5.1 billion).

Because of that economic weight, and because he has no rivals, Mr Mbeki is increasingly able to present himself as Africa's ambassador to the world. That helps him lobby for a permanent seat for his country (and hence a voice for Africa) on the UN Security Council. It gives him weight when, with Brazil and India, he demands reforms to the global trading system to favour poorer countries. It justifies his regular place at meetings of G8 leaders, which he enjoys. But his growing influence on the world scene also makes his patent flaws all the more alarming.

Hail to the Chief

The face the president shows within South Africa is decidedly less benign. Domestic critics feel that he is becoming so over-mighty, and so intolerant of criticism, that he may undermine the vibrant democracy that the ANC helped create.

They note that he has held power a long time. He became deputy-president under Mr Mandela in 1994 and was left to run much of domestic policy, especially economic affairs. Mr Mbeki and a team of friends—Trevor Manuel as finance minister, Tito Mboweni at the central bank—pushed

through a set of tough economic reforms, known as GEAR (the Growth, Employment and Redistribution Plan), to cut the deficit, lower inflation, cut tariffs and bureaucracy and privatise some state firms.

These reforms left opponents reeling. Those who wanted to see a state-dominated economy were barged aside. Trade union demands for job protection were ignored. Ronald Suresh Roberts, an author close to Mr Mbeki, half-jokingly describes the economic reforms as “equivalent to what Pinochet did to the economy in Chile, but without a dictatorship; in fact, it was done while building a larger democratic mandate.” Mr Gevisser suggests that the president's uncompromising style of leadership is “Leninist vanguardism”: leaders who understood market economics imposed policy on the rest.

The new policy was slow to work, and the costs were high; the broad definition of the jobless rate is still roughly 40%, and half the population still lives below the poverty line. But the economy has now started to blossom. Growth is higher than its historical average, and has been sustained for the longest period since the middle of the last century. Now Mr Mbeki's advisers talk of halving unemployment by 2014 and of creating 400,000 net new jobs a year.

The battle to impose liberal economics was won, however, at a high political cost. Mr Mbeki clamped down on policy debate (including debate on how to fight AIDS, or of what to do about Zimbabwe) and he enormously increased the power of his office. Two issues now worry even members of the ANC and allies of Mr Mbeki: the bitter and unforgiving tone of the president himself, and how the structures of power have been usurped.

In the past six months Mr Mbeki has carried out a series of personal attacks on soft targets, mostly through the medium of a long weekly column which is posted on the ANC's website. He first lashed out at Tony Trahar, the boss of Anglo American, the biggest firm in South Africa, for saying that some political risk persists in the country. Then he snapped at a white journalist, a rape victim who has written about the terrible rates of sexual abuse in South Africa, saying that she was a racist and out to denigrate black men. (Commonly, Mr Mbeki accuses his opponent of racism if he is white, or of supporting a “white agenda” if he is black.)

There followed an odd outburst this month against Winston Churchill, in which Mr Mbeki called for a “cold war” against whites who, like Churchill, think bad things about black-run Africa. At other times, AIDS campaigners who lobby for useful drugs for patients are accused of being stooges of foreign drug companies. Mr Mbeki has now stopped espousing his dreadful view that AIDS is not caused by a virus, but still shows little enthusiasm for the anti-AIDS measures that almost everyone believes are needed.

The archbishop complains

The biggest row, however, came in November, when Archbishop Desmond Tutu dared point out that a culture of “sycophantic, obsequious conformity” is emerging under Mr Mbeki. An “unthinking, uncritical, kow-towing party line-toeing”, he said, “is fatal to a vibrant democracy.” If yes-men surround a leader, who will tell him that his policies on AIDS, Zimbabwe and pro-black business are useless or dangerous?

The archbishop has a gift for riling pompous leaders. He upset apartheid's white rulers, Mr Mugabe (who called him an “embittered little bishop”) and now Mr Mbeki. Sadly, Mr Mbeki chose to ally himself with the Zimbabwean tyrant against the genial and democratic clergyman. He snapped at Mr Tutu that he was not a member of the ANC, and should therefore keep quiet. “Those who present themselves as the greatest defenders of the poor”, he added, “should also demonstrate decent respect for the truth, rather than indecent resort to empty rhetoric.”

The editor of the *Sunday Times* newspaper in Johannesburg, Mondli Makhanya, sees a case of presidential paranoia. “His is a feared pen, full of anger and invective...Mbeki's writings betray a person who believes he is powerless. They are laments of weakness and victimhood. Of conspiracy and fear. They betray a mind that is permanently on a war footing.” Mr Mbeki's allies retort that the president, known as “Chief” to close advisers, is only having fun and provoking debate. Do not assess the Chief by these incidents alone, they say. But since Mr Mbeki rarely talks to journalists, there are few other public pronouncements to judge him by.

Others note a long history of intolerance. During his exile from South Africa, he sidelined rivals by having them sent to distant posts. He had Max Sisulu, a rival economist, packed off to represent the ANC in eastern Europe. Back in South Africa he barged aside his main rival for leadership, Cyril Ramaphosa (the man Mr Mandela wanted to succeed him). When control of the ANC was formally handed to Mr Mbeki in 1997, Mr Mandela gave a prescient warning: “The leader must keep the forces together, but you can't do that unless you allow dissent.”

Mr Mbeki holds grudges. He previously clashed with Mr Tutu for recording abuses by the ANC during the struggle against apartheid. He attacks a mysterious cabal of rich whites who, he suspects, “set the agenda” of debate. He famously despises the leader of the opposition, Tony Leon, refusing to respond to him or even to acknowledge him.

The president has also used party and state structures to bolster his own power. William Gumede, whose new book, “Thabo Mbeki and the Battle for the Soul of the ANC”, details Mr Mbeki's fierce desire for party discipline and centralised, presidential control, claims that the space for debate is rapidly narrowing, both within and beyond the ANC.

The state broadcasting company is docile and uncritical of the government. Journalists, judges and others are told to “work together to build the nation”, rather than carping at the government or uncovering corruption. Many opposition politicians are co-opted. The old party of apartheid, the New National Party, slipped into the arms of the ANC last year. Its opportunistic leader, Marthinus van Schalkwyk, justified his move by saying that the future of South Africa will be decided “within the ANC, and not outside.”

But internal party reforms have weakened the ANC and strengthened the leader. Local branches and national policy conferences, which have influenced policy and leadership for much of the party's 93 years, have lost much of their power. Mr Mbeki now appoints all nine provincial governors, and directly controls the chief posts of the civil service. He also has his own spies at his disposal, alongside the intelligence network of the state.

Most alarmingly, he uses organs of the state against party rivals. In 2001 he told the police to investigate three men—Mr Ramaphosa, Tokyo Sexwale and Matthews Phosa—for plotting to “overthrow” him. It was a ludicrous accusation, but it pushed the three men out of politics. Mr Gumede worries that all this threatens the young democracy. “We are going to get a false consensus, with nothing aired in public, which is a real danger,” he says.

Moeletsi Mbeki, a businessman and the president's brother, is blunter. He sees a “stubborn and self-righteous” president drifting away from the ANC tradition of multi-racial social democracy. Mr Mbeki is creating a narrow “capitalist, black-consciousness party” obsessed with promoting the interests of one racial group. He even interprets Mr Mbeki's tacit support of Mr Mugabe as solidarity with a fellow black leader.

That may be putting it too strongly, but it is a warning to heed. When Mr Mbeki pushes for reform and development abroad, he speaks as the leader of Africa's most successful democracy. And tolerance for debate, dissent and opposition is vital if domestic—and foreign—success is to be sustained.

Civil liberties

Just a few bad apples?

Jan 20th 2005
From The Economist print edition

Eyevine

America's quest to win over hearts and minds in the war on terror has been dogged by human-rights complaints. The first of two pieces looks at its record overseas

THE United States is a “nation of law”, George Bush insisted after the sickening photographs showing American soldiers abusing Iraqi detainees at Abu Ghraib prison appeared last spring. The “disgraceful conduct” had been the work of “a few bad apples” who would be brought to justice. He also promised that America's treatment of terrorist suspects and “unlawful enemy combatants” such as those it has sent to the Guantánamo Bay base in Cuba would conform to both domestic and international laws. The United States, Mr Bush declared, was “committed to the worldwide elimination of torture, and we are leading this fight by example”.

Since then, the administration has suffered a number of reverses. Last summer, it emerged that it had sanctioned two memoranda redefining the concept of torture more narrowly. The Supreme Court has allowed the 550-odd foreigners being held in Guantánamo to challenge their detention in the American courts. Under international pressure, it has had to release ever more detainees. And a ruling by a federal district court judge has put on hold its planned system of special military commissions at Guantánamo.

Mr Bush seems unrepentant, judging at least from this week's events. As *The Economist* went to press, it looked certain that Alberto Gonzales, the White House counsel who was involved in both torture memos, would be confirmed by the Senate as the new attorney-general—America's highest law officer. Meanwhile, officials have cited the tough sentence doled out to the chief bad apple at Abu Ghraib as evidence that the problem is being sorted out.

In the first contested court-martial relating to abuse at the prison, the alleged ringleader, Specialist Charles Graner, was sentenced on January 15th to ten years in jail and given a dishonourable discharge; he had been found guilty on all five charges of assault, maltreatment, indecent acts, conspiracy and dereliction of duty. Four other soldiers have entered guilty pleas, including three who have been given custodial sentences, one for eight years.

Another three soldiers are awaiting military trials, though in view of Mr Graner's sentence they may now be tempted to plea-bargain. They include Private Lynndie England, Mr Graner's former lover, who was pictured holding a prostrate naked prisoner on a leash.

The sentences, if completed, are certainly tough by historical standards. After the My Lai massacre in Vietnam in 1968, when some 500 civilians were slaughtered, 25 American soldiers were charged. But only a few were tried and just one, Lieutenant William Calley, found guilty. He was sentenced to life but, after less than four years' house arrest, he was released.

Has Mr Graner been made a scapegoat? All along, he—and most of the others involved—have claimed that they were simply following orders to “soften up” the detainees before interrogation. Strangely, at his court-martial his defence counsel called no senior officers or officials who might have been able to corroborate this, and Mr Graner himself declined to take the witness stand.

Eleven inquiries have been set up by the Pentagon into the maltreatment of detainees. All eight so far completed have confirmed shockingly sadistic practices. The Red Cross thought what went on at Abu Ghraib was “in some cases tantamount to torture”. But not one of the Pentagon inquiries has found evidence of any policy that officially sanctioned the abuse. Instead, most have vaguely blamed a lack of supervision and a “failure of leadership”. So far, all those charged have been low-ranking soldiers.

According to the Pentagon's own figures, more than 130 members of the American armed forces have already been disciplined or convicted in connection with the unlawful killing or maltreatment of detainees and/or civilians in Afghanistan, Iraq and Guantánamo Bay. Many more cases are still pending, including 13 for unlawful killings. The toughest sentence to date was the 25 years handed down to a soldier last September for murdering a member of the Iraqi National Guard.

The Pentagon says that these figures should be seen in context. Since September 11th 2001, some 500,000 American troops have been deployed (some for more than one tour of duty) in Afghanistan, Iraq and Guantánamo, and some 50,000 foreigners detained. Many of the incidents of alleged abuse were minor ones, such as turning a hose on an unruly prisoner.

On the other hand, recently released army and FBI documents suggest that there was a pattern of abuse in Afghanistan, Iraq and at Guantánamo that was (at the least) not taken seriously by those higher up. A report by Major-General Antonio Taguba spoke of “systemic” problems at Abu Ghraib. The Red Cross described the abuse as “systematic”.

The “torture memos” do not help the government's case. In the first, written in January 2002, Mr Gonzales advised Mr Bush that in the new war on terror the Geneva Convention protections for prisoners had, in his view, become “obsolete”. The second, produced by a Justice Department official in August 2002 for Mr Gonzales, suggested that Mr Bush's wartime powers allowed him to disregard congressional restraints on interrogation methods. It also narrowed the definition of torture to acts equivalent to “serious physical injury, such as organ failure, impairment of bodily function, or even death”. (A third Pentagon memo in 2003 said a torturer could escape criminal liability if he believed that his act was both “necessary and designed to avoid greater harm”.)

At his confirmation hearings, Mr Gonzales expressed his “outrage” at the Abu Ghraib photos and his repudiation of torture. Although he declined to disavow the memos outright, he said that as

attorney-general he would no longer be representing the White House but the whole American people, adding that he understood “the differences between the two roles”.

Is that good enough? Harold Hongju Koh, a former official in Bill Clinton's State Department and now dean of Yale Law School, described the Justice Department memo as “perhaps the most clearly legally erroneous opinion I have ever read”. Its definition of torture would have permitted pulling out fingernails and burning with hot irons. And it so overstated the president's powers that, under its logic, Mr Bush could order genocide without Congress or the courts being able to stop him.

The administration says the memos were just “a scholarly effort to define the perimeters of the law”. But the Justice Department did not officially rescind its torture memo until last month, replacing it with a broader definition. No mention was made of the president's wartime powers because, officials explained, this was not necessary: Mr Bush had always made clear his unequivocal opposition to torture.

International condemnation does not seem to have pushed Mr Bush far. One factor that may change his mind is public opinion at home. A Gallup poll last week showed strong disapproval of harsh interrogation techniques, such as making prisoners think they were drowning. Although most Americans still believe the Abu Ghraib abuse was only a few isolated cases, two-thirds admit it has damaged America's reputation as a protector of civil liberties. They also think it has made it more likely that captured American soldiers will be tortured.

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The domestic war on terror

Torturing Alberto

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A mixed inheritance for America's next attorney-general

AP

Long time no see

THE war on terror, Alberto Gonzales told members of the Senate on January 6th, would be his top priority as America's next attorney-general. How effective has the Justice Department been under John Ashcroft in fighting terrorism at home?

To conservatives and the department itself, this is an easy question to answer. No act of terrorism has occurred on American soil since the attacks on September 11th 2001. Polls show Americans feeling ever safer. According to the department's own tally, it has charged 375 people with crimes in “terrorism-related” investigations since September 11th—and 195 have been convicted or pleaded guilty. Yet critics insist that the department is overcounting; and that it has overreached its powers.

Few people dispute the Justice Department's decision after September 11th to shift its focus away from prosecuting terrorists after the fact to breaking up terror plots in advance. To this end, it has marshalled an arsenal of legal weapons to put terrorists behind bars. So far most controversy has centred on Mr Ashcroft's tour de force, the USA Patriot Act, which was rushed through Congress after the attacks. This dissolved the wall between the intelligence and criminal arms of an investigation. It also boosted the government's powers of surveillance sufficiently to provoke protests from civil-liberties groups about “sneak-and-peek searches” (though America is still less intrusive than many governments in Europe).

Less noticed has been the department's aggressive use of existing legislation. According to its own tally, 113 of the cases and 57 of the convictions and guilty pleas were linked to a 1996 law which prohibits people knowingly providing “material support or resources” to terrorists. This law has worked well to lock up some plotters. For instance, Iyman Faris, a Pakistani immigrant, pleaded guilty in October 2003 to talking to al-Qaeda about destroying the Brooklyn Bridge, and was sentenced to 20 years. Another Pakistani, Mohammed Junaid Babar, pleaded guilty in June to conspiring to smuggle night-vision goggles and money to al-Qaeda.

But the material-support law's vagueness leaves it open to abuse. The prime example is the collapse of the government's case against an alleged Detroit sleeper-cell last year. The government had to ask the court to “void” the two terror convictions, because its lead prosecutor had withheld evidence that may have helped the defence. Suddenly, a case that Mr Ashcroft had defied a judge's gag order to brag about became a series of blunders. A sketch found in a defendant's apartment that supposedly showed an American airbase in Turkey seemed more likely to be the doodling of a mentally ill Yemeni man; videos that the government said were “casing” American tourist sites turned out to be harmless holiday snaps.

The Justice Department also dusted off a 1984 law that allows a “material witness” to a trial to be locked up if he poses a danger or seems likely to flee. Dozens of people have been detained under this provision. Even though the 2nd Circuit Court of Appeals has ruled that the new use of the statute is perfectly legal, civil libertarians have protested that this is simply a ruse for the government to hold people indefinitely without charging them.

The department has relied most heavily on immigration law, with dragnets pulling in plenty of suspects. However, none of the several thousand foreign nationals rounded up since September 11th on immigration violations has been convicted of a terror crime—except for the two people in Detroit whose convictions were later voided.

What about those impressive numbers for overall convictions? Critics say they are pumped up. “The vast majority are not convictions of anything related to terrorism,” says David Cole of Georgetown Law School. A study by the Transactional Records Access Clearinghouse, a data-gathering group, of all “terrorism-related” cases in the two years after September 11th found that the median sentence for convictions was 14 days—hardly what you would expect for a terror crime. The Justice Department has disputed this study, but its own caginess about its classification system has not helped its cause.

Critics point out that most of the best-known terror convictions have been plea-bargains—a hint, they say, that the government is on thin ice legally. For instance, how could James Ujaama, a Seattle man charged with trying to set up a terrorist training camp in Oregon, get away with just a two-year prison term?

Others insist that defendants would never have brought plea-bargains if they had known the limits to the government's right to declare foreign nationals “enemy combatants” with no recourse to the American courts. The Supreme Court gave them the right to challenge that status last year. The prospect of rotting away in jail without ever being charged with a crime may have weighed on the minds of terror defendants. The “Lackawanna Six”, a group of Arab-Americans from upstate New York who went to an al-Qaeda training camp before September 11th but otherwise showed little appetite for *jihad*, all pleaded guilty and got lengthy sentences.

Mr Gonzales will probably fight terror much as his predecessor did, though with less bombast. “There will be no mid-course correction,” insists Viet Dinh, a former Justice Department official. But Mr Gonzales will also have fewer weapons. The removal of the enemy-combatant status may make plea-bargains harder; and several provisions of the Patriot Act are due to expire at the end of this year. Mr Gonzales will have to persuade Congress that they are worth keeping.

The death penalty

Kill me, please

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From The Economist print edition

Reviving the death penalty in New England

Get article background

AP

How it began

ON JANUARY 18th, dozens of activists fanned out through the legislative building in Hartford, Connecticut's capital. Each wore a red sticker pleading “Don't Kill in My Name”. The Connecticut Network to Abolish the Death Penalty was formed almost 20 years ago, but recently its membership has doubled and its mission has gained fresh purpose. New England's long moratorium on capital punishment is scheduled to end in a matter of days.

On January 26th, Michael Ross, a 45-year-old former life-insurance salesman, will be executed in Connecticut. He will be killed in a remote prison in the middle of the night, but his death will nonetheless make waves. Only two north-eastern states, Connecticut and New Hampshire, allow capital punishment, but even in these two the penalty has been largely theoretical. Connecticut's most recent execution took place in 1960, New Hampshire's back in 1939. Although most states have some provision for capital punishment, one-third of all executions since 1976 have taken place in Texas. Elsewhere, it is common for inmates to spend years on death row while their appeals plod through courts that are reluctant to dispatch them.

That is particularly true in Connecticut, where Mr Ross is one of eight people awaiting execution. Arrested in 1984 and convicted in 1987 of murdering four women (Mr Ross has admitted to killing eight victims and raping most of them), there is no question of his guilt. Yet, 20 years after his arrest, well-established paths still allow appeal and delay. Mr Ross could argue in state court that lethal injection is cruel and unusual punishment, or that his lawyer was no good—and delay his execution for years.

Yet Mr Ross is ignoring this. Given the choice of returning to court or dying, he has chosen death. Lethal injection is less cruel, he implies, than the legal process.

Over the past two decades Mr Ross has wavered between the wish to appeal his death sentence and his abhorrence of the court system, which he once described as a “meat-grinder”. In 1998, he tried to skip a second penalty hearing and hasten his execution by signing a special agreement with his prosecutor. A judge declared the agreement unconstitutional and ordered a second hearing. Forced to return to court, Mr Ross sought a life sentence, but in 2000 he was again condemned to death.

After his appeal was denied in 2004, Mr Ross fired his public defenders, hired a private lawyer and demanded to be executed. Much to his frustration, his former lawyers, the Connecticut Civil Liberties Union and even his own father are now filing last-minute briefs to stop his execution. So far, their attempts have failed. The last source of review is Connecticut's governor, Jodi Rell, but she supports the death penalty and has denied Mr Ross a reprieve.

Oddly, Mr Ross says he opposes the death penalty in principle. People in Connecticut seem equally ambivalent about it. Last week, a Quinnipiac University poll found that Connecticut voters supported capital punishment in theory (59% to 31%), but preferred the penalty for murder to be a life sentence without parole rather than execution (49% to 37%). This mixed sentiment ensures that one of the most important justifications for the death penalty, “closure”, is undermined by years of complex appeals.

Franklin Zimring, a professor at the University of California at Berkeley, argues that while “closure” is a service of American justice, a thorough appeals process is vital to instil a basic trust in courts. In Connecticut, tentative support for capital punishment has fostered a system that doles out death sentences, but keeps inmates on death row indefinitely. Five of the eight men living on death row have been there for ten years or more.

Anti-death-penalty groups are now staging rallies not just on the steps of the capitol, but across the state. Some 300 criminal defence lawyers signed a resolution last week to abolish capital punishment. Churches and synagogues are holding vigils, and the Catholic archbishop of Hartford is distributing petitions to end state executions. These groups insist that their mission is not about Mr Ross, but about the morality of capital punishment in general. Their fight will continue regardless of his fate.

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Iraq's elections

The exiles prepare

Jan 20th 2005 | SKOKIE, ILLINOIS
From The Economist print edition

Some registering, much squabbling

AP

The overseas lobby

SECURITY was tight, Saddam Hussein was roundly criticised, ethnic and religious cracks appeared, a boycott was threatened. Baghdad? No, America, where expatriate Iraqis registering to vote in next week's national elections have been emotionally discovering what they really feel about their homeland.

Exiles registered in five designated cities across America this week (Washington, Detroit, Chicago, Los Angeles and Nashville), some after driving 20 hours across several states. They walked through metal detectors and past police dogs, clutching their Iraqi passports and papers. “This is a gift from God”, said Bethro Buco, a 72-year-old grandmother in a dark blue headscarf who left Iraq seven years ago. Asked to sign her name on the registration docket, the old woman bent forward and shakily drew a large cross on the dotted line.

Precise figures are unknown, but election officials say as many as 240,000 Iraqis in America (including those with dual nationality) may be eligible to vote. Voter registration, due to end on January 24th, got off to a modest start, with only 5,246 people (about 2.2% of the estimated total) turning up on the first two days.

The global turnout was slightly better. About 1m overseas Iraqis are thought to be eligible to vote; 75 sites in 36 cities in 14 countries, from Jordan to Australia, have been approved for voting, in what its organisers claim is the largest overseas voting programme in history. By January 18th only 41,976 people had registered. Iran had the most expatriates registered early on, followed by America and Sweden.

In America, where the five cities were chosen with help from exile groups, some moan about preferential treatment: the Kurds, for instance, are strong in Nashville, which has a total Iraqi population smaller than, say, the San Francisco Bay area. Even the sites chosen within cities brought grumbles. In Detroit, some Christian Chaldeans complained that one registration place was closer to a Muslim Arab area. At the Assyrian National Council of Illinois Community Centre in Skokie, a northern suburb of Chicago, the crowd was overwhelmingly Christian; many Muslim Iraqis live on the city's south side far from both the city's registration sites. Some Sunni Muslims across the country are boycotting the whole thing, as they are threatening to in Iraq.

Many others, even those born in America, have embraced their right to vote. “You have an opportunity to make a difference—once,” says Paul Khamis, a 21-year-old college student with Iraqi parents. As with many others, ethnic and personal ties (he is an Assyrian Christian) already

determine whom he will choose among the swarm of parties and coalitions on the ballot. “Any election is always religious, even in this country,” Mr Khamis adds. Last November, in his first American election, he voted for George Bush.

But Abdul Jabbar Alwan, a retired professor of business who drove from Wisconsin to register, scoffed at all the talk about religion. “I'm very old, and this is the first time I hear people talking about Shia, Sunni, all these things,” said Mr Alwan, who has Muslim roots but practises no religion. His son Layth Alwan, also a professor, was born in America but intends to vote next week, in part to assuage his disappointment at Mr Bush's re-election. “We both had a lot of emotion coming off the US election,” says the younger Mr Alwan. “At least this [Iraqi] election gives us a sense of hope about change that we couldn't do here.”

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Dry campuses

Booze control

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Another round of colleges v kegs

“PROHIBITION is better than no liquor at all,” argued Will Rogers, Oklahoma's most famous cowboy. Clever minds in his home state are now hoping another ban on booze will bring better results. Starting this week, alcohol is outlawed from campus at the University of Oklahoma (OU).

The university's president, David Boren, a former Democratic senator, has forbidden fraternities and dorms from having alcohol on the premises (sororities are already dry). Even students who are 21 years old, and thus legally allowed to drink in the state, are now allowed to booze only at organised Friday and Saturday night events. Anyone caught violating this policy three times, on or off campus, will be suspended under a new “three-strikes” rule.

One in three American colleges bans alcohol, according to a recent study by researchers at Harvard's School of Public Health. Dry campuses abound in the South and the mid-west. For the most part, these are small places—though the teetotallers include the University of Kansas and, unsurprisingly, the University of Utah.

As anyone will know who has read Tom Wolfe's latest novel, “I am Charlotte Simmons”, or merely followed the antics of the Bush twins, American universities plainly have a drink problem. OU's crackdown came because a freshman died after a raucous fraternity pledge-night last September. If research is to be believed, two in five students “binge drink” and as many as 1,400 die each year of alcohol-related causes, mostly drunk driving.

But will banning alcohol from campus work? It could well merely push drinking into surrounding streets, from which students will have to stumble (or drive) home. A 2001 Harvard study found that fewer students on dry campuses drink, but those who do imbibe just as much as their counterparts at “wet” places.

Universities are fighting the demon in other ways. Alcohol-awareness programmes are ubiquitous, and more parents are being notified if their kids are caught at the keg. Some universities have toyed with adding more Friday classes, though teachers do not like these. Others are running late-night coffee-houses as alternative entertainment. Pushed partly by insurance costs, more fraternities are joining sororities in going dry. And diehard drinkers could always choose to study abroad: in Britain, not only are you allowed to drink at 18, but student unions are actually allowed to sell the stuff themselves, on campus.

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Tennessee politics

The monster that ate Nashville

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The unhappy fate of Tennessee's health-care experiment

IT SEEMED like a good idea at the time. In 1994, Tennessee faced a $250m deficit in its administration of Medicaid, the federal-state health-care programme for the poor. Several managed-care organisations were given the job of administering the programme more efficiently. Eleven years later, however, TennCare has turned into the monster that might eat Nashville.

In 2004 it chewed up nearly one-third of the state's total budget. Facing an $8 billion programme with the potential to swell to $12 billion in 2008, Phil Bredesen, Tennessee's Democratic governor (but one with a reputation as a fiscal conservative to protect), now wants to take 323,000 people off TennCare's 1.3m roll, saving $575m.

The state could have appealed for federal relief. Instead, the $575m in spending cuts mean that $1.1 billion in matching federal dollars will never arrive. A study by the Centre for Budget and Policy Priorities, a think-tank, estimates that, thanks to the TennCare cuts, the state will lose $1.7 billion and nearly 15,000 jobs by 2007. Several hospitals are rumoured to be on the brink of bankruptcy.

For a programme in such dire straits, TennCare started out well. A 2001 report by the state treasury noted that TennCare spent less per Medicaid enrolee than any other state; a separate study by the Urban Institute found that the state saved $245m in tax dollars between 1994 and 1998. But that was when the economy was strong. Moreover, participating doctors found it hard to get reimbursed. One of the managed-care firms involved went bust in 1999; when the largest, Blue Cross Blue Shield, threatened to leave the programme, the state agreed to take on all risk associated with TennCare.

Mr Bredesen pins much of the blame on a series of consent decrees imposed on TennCare as a result of lawsuits filed by the Tennessee Justice Centre (TJC), a legal-aid organisation. The TJC went to court to stop Don Sundquist, Mr Bredesen's predecessor, paring 200,000 people from TennCare's rolls in 2002. It also kept alive a 1979 lawsuit that required TennCare to pay for 14 days'-worth of any prescription drug it had not yet approved. Mr Bredesen announced his disenrolment plan only after breaking off talks with the TJC, and will have to go back to court this spring to tailor his cuts to the consent decrees.

Mention the TJC, and the normally even tempered Mr Bredesen describes himself as being as “irritated as the devil”. He had an idea, he says, to fight rising prescription-drug costs, the bulk of TennCare's spending, by dividing drugs into three lists: the automatically approved, the occasionally approved and the rarely used. The TJC refused to give its blessing. Gordon Bonnyman, its executive director, retorts that the governor could not tell him which drugs would end up on which list.

Most of TennCare's financial problems, however, stemmed from rising costs and over-generosity. TennCare pays for nearly every drug prescribed. It imposes no limits on days in hospital or the number of prescriptions allowed each month. Unsurprisingly, each TennCare enrolee gets, on average, 30 prescriptions per year. Yet Tennesseans are an unhealthy lot. The 2004 annual survey by United Health Foundation, a health-care consortium, ranked Tennessee 48th out of the 50 states. Obesity has doubled since 1990.

The scandal does not help the Democrats. Both the national health-care proposals endorsed by the Clintons in 1993 and John Kerry's plans to renegotiate drug prices at the federal level had echoes of TennCare. But Republicans, too, have their hands full with Medicaid. George Pataki, New York's governor, has just announced a plan to cap the state's soaring Medicaid payouts, and Jeb Bush, the governor of Florida, is attempting to shift the costs to private insurers. TennCare may be a model again—albeit an unwelcome one.

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Sex and academia

Birdbrained

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Are women naturally bad scientists?

IN HIS three-and-a-half years in the job, the president of Harvard University, Larry Summers, seems to have upset a large number of people. First, he said students were getting too many “A” grades because of grade inflation (which was correct). Then he took on Cornel West, a black professor, over his dodgy extra-curricular activities (again, Mr Summers had a point). Now he has suggested that one of the reasons women achieve less in science and maths is that they have less innate ability.

Mr Summers's comments were off the record; but he has since confirmed that he did draw attention to the possibility that innate differences, rather than social factors (such as education and treatment in the workplace) might have a role to play. This has drawn howls of complaint from the usual quarters. But, scientifically speaking, is he correct?

There is certainly evidence to suggest that the average male and female brains may be different, with men better able to “systemise” about the world and women better at “empathising”. So are we wired differently from birth?

Some clues come from a theory that autism is a developmental disorder that produces an “extreme male brain”. Autism is up to four times more common in boys, and is thought to be caused by high levels of testosterone in the womb. Those who have it tend to be better at puzzles and pattern-related tasks than at verbal communication. Maybe males, with more testosterone in the womb, are simply better at non-verbal skills? A medical description of autism practically reads like a scientific job description. Clumsy and overwhelmed by the physical world, autistic minds are often far more comfortable with the virtual realms of maths, symbols and code.

However, even if geeks are naturally male, says Susan Ganter, executive director of the Association for Women in Science in Washington, DC (and a mathematician by training), it would not warrant Mr Summers's comments. Nobody knows to what extent such variations are actually important. They may well be a minor factor, while there are plenty of others that undoubtedly affect female success in science. One of these is that it is very difficult to return to science after a career break to have a child—something Mr Summers also talked about in his speech.

Worse, from a scientific viewpoint, Mr Summers may have compounded the problem by mentioning it. A slew of scientific research shows that if people are told they will fail, they will do so.

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Lexington

The return of the Newt

Jan 20th 2005
From The Economist print edition

Will the Democrats learn the right lessons from a revolutionary Republican?

TEN years ago, Newt Gingrich was the Sun King of American politics. He not only masterminded the first Republican takeover of Congress in 40 years; he also rammed through a wish-list of conservative policies, from a balanced budget to welfare reform. “It's a whole Newt world,” yelled one excited congressman when Newt was elected speaker.

That world didn't last long. The man who skewered the Democratic speaker for ethics violations was skewered for ethics violations of his own. A man who criticised Bill Clinton for womanising was exposed as a womaniser himself. With his negative ratings at stratospheric levels, he was unceremoniously turfed out of the speaker's chair. The Robespierre of the Republican revolution was reduced to appearing on “Da Ali G Show”.

Now Newt is back. This is not just because he's hawking a book—“Winning the Future: A 21st Century Contract with America”—and sounding out a presidential run. (People like Mr Gingrich are always hawking themselves in one way or another.) It's because people of all political persuasions, on the left as much as the right, are suddenly interested in what he has to sell.

A growing number of conservatives regard Mr Gingrich as both an inspiration and an indictment: an inspiration for George Bush's second term and an indictment of the Republican establishment. In the mid-1990s, Mr Gingrich proved that you could push through “pie-in-the-sky” policies, notably welfare reform and a balanced budget, by dint of discipline and determination. Mr Bush has passed the first Gingrich test by embracing big bold ideas, such as Social Security reform and tax simplification. Now, argue conservatives, the president needs to pass the second Gingrich test by ramming his policies through, using the grassroots energy that characterised the Gingrich

revolution ten years ago.

But if conservatives are inspired by Mr Bush's second-term agenda, they are also dismayed by what has been happening to their party. Mr Gingrich rose to power promising smaller government and a cleaner Congress. In his first term, Mr Bush delivered bigger, dirtier government, spending more money than Mr Clinton did. The Department of Education (which Mr Gingrich promised to abolish) has so much cash swilling around that it can afford to pay a conservative pundit, Armstrong Williams, $240,000 to promote an education bill that he would have promoted for nothing. And the Republicans are every bit as corrupt and pork-addicted as the Democrats they replaced. They even contemplated weakening Congress's ethics code in order to protect their ethically-challenged leader, Tom DeLay.

Yet the most striking uptick in interest in Mr Gingrich is on the left. Mr Gingrich has received star treatment from two left-leaning pundits—Michael Crowley in the *New Republic* and Marshall Wittmann in the Democratic Leadership Council's house magazine, *Blueprint*. The reason why liberals are suddenly so interested is simple enough: Mr Gingrich was the last person to turn a minority party into a majority party in Congress.

When the bumptious young congressman from Georgia was first elected, in 1979, he pledged to do everything in his power to turn a party that had grown too comfortable with opposition into a ruling party. Forget about politics being the sport of gentlemen. Forget about not soiling your own nest. Lampoon the Democratic speaker for a dodgy book deal. In fact, throw everything you can find at your enemy. In effect, Mr Gingrich led a peasants' revolt against his party's establishment.

A growing number of Democrats think the Gingrich approach has something going for it. They worry that their party's leaders are becoming habituated to opposition. They calculate that the party's increasing corruption makes it the perfect target for a populist rebellion. And they think that they may have found a perfect issue to shake up the political system. Just as the Republicans prepared the ground for their 1994 victory by blocking Hillarycare, the Clintons' grandiose attempt to transform the health-care system, so the Democrats can start their comeback by leading an all-out assault on Social Security reform.

Remember the ideas as well

Is this a good plan? This week, David Brooks, a conservative commentator at the *New York Times*, pointed to some practical problems for these “Gingrich Democrats”—not least the fact that America contains at least three conservatives for every two liberals. Slash-and-burn politics, he points out, is much riskier for the left now than it was for the right in the 1990s (though it is hard to see how neo-Gingrichism could be any worse for the Democrats than their current policy of muddling through).

In fact, the biggest problem for the Democrats is not that they will learn too much from Mr Gingrich but that they won't learn enough. In particular, they will embrace his passion for pugilism without embracing his passion for ideas. For Mr Gingrich has always been a fountain of schemes—some bold (reinventing health care or environmental policy), some small (paying students to take unpopular subjects such as mathematics and science), some nutty (employing the handicapped on space stations or giving laptops to the homeless), but all of them interesting.

The biggest problem with the current Democratic leadership is not that it has lost the will to fight but that it has lost the power to think. When was the last intellectually innovative idea you heard from Nancy Pelosi, the current minority leader, or, for that matter, from Dick Gephardt, her predecessor? Heaven knows, Mr Gingrich's musings have caused his party problems. But the Democrats are in danger of turning into that most pathetic of all political organisations—a minority

party that devotes all its energies to the blind defence of the status quo. By all means let the Democrats learn from Newt the fighter; but if they want to recapture power they need to learn from Newt the thinker, too.

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Correction: John Sununu

Jan 20th 2005
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In "Trouble and Strife" (January 8th) we said Senator John Sununu opposed proposals to limit the use of filibusters in judicial confirmation hearings. In fact he has not taken a position.

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Bolivia

Water, oil and the mob

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AFP

Another defeat for privatisation as the sick man of South America becomes even harder to govern

WHO would try to govern Bolivia? Hoping perhaps that the population would be distracted by New Year celebrations, on December 30th the government of Carlos Mesa announced a rise of 23% in the price of diesel fuel and of 10% for petrol. The reaction was swift: “civic strikes” shut down two of the country's three biggest cities, Santa Cruz in the east and El Alto, a sprawling satellite of La Paz, the capital. Bus owners grudgingly went back to work but in Santa Cruz farmers staged hunger strikes and sit-ins in government offices. To end the street blockades in El Alto—which cut off the airport—the government made a different concession: it said that it would scrap an unpopular contract under which a French group supplies water to the city. Then, on January 19th, Mr Mesa lopped 6% from the new fuel prices.

That may buy a respite for the president. But his government—never robust—looks increasingly fragile. The president is personally popular, though less so than he was. With the country's political parties deeply discredited, not much stands between Bolivia and mob rule. “They are not allowing me to govern,” Mr Mesa complained in a televised speech on January 9th. “We are facing the risk of a climate of uncontrollable violence.”

In October 2003 a similar protest in El Alto, in which 59 people were killed, toppled the elected president, Gonzalo (“Goni”) Sánchez de Lozada, a pro-American free-marketeer. Mr Mesa, a historian and broadcaster who was the vice-president, took over the top job. He has tried to steer a middle course, repudiating many of Goni's policies but resisting the protesters' demands for

wholesale nationalisation. It has not been easy.

Take the explosive issue of oil and gas. In July, Mr Mesa won a referendum whose carefully crafted questions gave him a fairly free hand to negotiate an increase in taxes paid by foreign companies brought in when Goni privatised the oil and gas industry in his first term a decade ago. But Evo Morales, the leader of the coca workers and of the radical Movement to Socialism, who came second in the 2002 presidential election, wants the industry renationalised. In the current political climate, few of Bolivia's discredited traditional politicians are prepared to be outflanked on the left. So Congress amended the hydrocarbons bill to give the state a dominant role and apply this retroactively. That has produced a stand-off between president and Congress, which may also reverse the fuel-price rise.

Water has become another political trophy. In 1996, Goni's government awarded a contract to operate the water and sewerage system in La Paz and El Alto to Aguas del Illimani, a consortium in which Suez, a French services group, has a majority stake. The company insists that it has kept its side of the contract: it has invested $63m (though some of this was soft loans through the government). After years in which the state water company failed to keep pace with demand, Aguas del Illimani expanded coverage, especially among the poor. The annual rate of new sewerage and water connections rose by two-thirds in the first years of the contract.

But in 2000 protests forced the cancellation of a similar water contract in Cochabamba, Bolivia's third city, with a foreign group including Bechtel, an American construction firm. Shortly afterwards, the government rejected a request by Aguas del Illimani to raise tariffs—which are lower than those charged by public-sector water firms to help pay for the expansion of coverage. Instead it decreed a rise in connection charges. These now total $450 for water and sewerage—or six months' wages for poorer Bolivians. So the increase in coverage has slowed. Meanwhile, El Alto is expanding fast, as migrants flood in from the impoverished countryside.

“Some people would have been left without water for a decade,” says José Barragán, the deputy minister in charge of water. As discontent over the issue mounted in El Alto last year, the government asked the company to renegotiate the contract. “We received only negatives,” says Mr Barragán. The government was put under further pressure to act when the mayors of both cities, re-elected in December, called for the recision of the contract.

A decade ago, Bolivia—one of the poorest countries in South America—was an unlikely standard-bearer for privatisation and free-market reform. For a while, these policies produced steady, if unspectacular, economic growth. Then came a regional recession, and the public mood changed.

Bolivia's turbulence is being watched with concern by the United States, which worries about rising drug production and the prospect of Mr Morales taking power. Brazil's left-wing government, which worries about instability on its country's borders, has tried to restrain Mr Morales. Petrobras, Brazil's state oil company, is the largest investor in Bolivia's hydrocarbons industry; it has said it will seek compensation if its business is seriously affected by the new hydrocarbons law.

Bolivia's retreat from its reforms is unlikely to help its poor majority. Thanks largely to private investment, many more Bolivians, and especially poorer ones, have basic services: in 1992, only 50% had water and 40% had sewerage, and in 1997 only 45% had electricity. Today, according to the World Bank, 70% have water, 40% have sewerage and 60% have electricity. The government, which will now take over the water company, is grappling with a fiscal deficit of 6% of GDP. The risk is that other private investors will now pull back—or be pushed out. The next target of the radical leaders in El Alto is the power company, owned by Spain's Iberdrola.

Mr Mesa's respite is likely to be brief. He is committed to calling a Constituent Assembly this year. A new constitution is hardly Bolivia's most urgent need, and it is sure to generate fresh political

conflicts. The radicals may yet overreach themselves. Bolivians are unaccustomed to paying much for water or fuel. Anger over the water charges was widespread in El Alto. But the protests will make Bolivia even more dependent on foreign aid. They have provoked secessionist rumbles from the less poor and pro-capitalist east. Mr Morales's party won 19% in the municipal elections, more than any other party but less than he had obtained in 2002. There may be a moderate majority in Bolivia, but it is staying silent for now.

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Colombia and Venezuela

Neighbour dispute

Jan 20th 2005 | BOGOTÁ AND CARACAS
From The Economist print edition

A Colombian bounty hunt puts Hugo Chávez on the spot

AFP

Granda was kidnapped, says Venezuela

RODRIGO GRANDA was scarcely a household name when in mid-December the Colombian police said they had arrested him in the city of Cúcuta, close to the border with Venezuela. With his cardigan and the air of a carefully groomed, middle-aged bank manager, he looked anything but a leader of the FARC, Colombia's main left-wing guerrilla group. But the FARC has acknowledged that Mr Granda was indeed a roving envoy for their movement, which figures on the United States' list of terrorist organisations.

The story might have ended there, as another success in the "war on terror", were it not for the details of how Mr Granda ended up in Cúcuta. These have emerged in fits and starts. He was snatched from a café in the centre of Caracas and smuggled over the border by, it is alleged, the anti-kidnap squad of Venezuela's National Guard. It was a freelance operation, carrying a hefty reward—and perhaps with Colombian agents present.

These revelations have brought relations between the two countries to their lowest point since 1987 (when a Colombian warship entered disputed waters, almost sparking a war). Hugo Chávez, Venezuela's left-wing president, accused Colombia of violating his country's sovereignty. On January 14th, he suspended trade agreements with Colombia and withdrew his ambassador from Bogotá pending an apology. Álvaro Uribe, his right-wing counterpart in Colombia, denies that any violation took place. He has repeated claims that Mr Chávez harbours terrorists and turns a blind eye to guerrilla camps on Venezuelan soil.

This issue has long caused tensions. Mr Chávez claims to be "neutral" in the conflict between Colombia's democratic state and the rebels, who rely on kidnapping and drugs. Venezuela's ruling coalition includes some close friends of the FARC. Although both the FARC and right-wing paramilitaries have spilled across the 2,200km (1,370-mile) border between the two countries, Mr Chávez refused to co-ordinate army operations with Colombia. Venezuela is suspicious of American aid to its neighbour, which includes helicopters and military advisers.

Recently, however, relations had become warmer. Mr Chávez's victory in a recall referendum in August, and Mr Uribe's success in obtaining a constitutional change to allow his re-election, mean that both men expect to have to do business with each other for a while. In November, they met and talked of exchanging intelligence on the border region.

The Granda incident has put paid to this thaw. It appears that Mr Granda and his family had been living openly in Venezuela. He had been given nationality and even voted in the referendum. Awkwardly for Mr Chávez, the FARC put him on the spot by stating that Venezuela's government had invited Mr Granda to two conferences, something officials had previously denied. The president must now choose either to quarrel with Colombia, or to repudiate the FARC and dent his “revolutionary” credentials.

Even though Colombia's exports to Venezuela are substantial and growing, officials in Bogotá were slow to mend relations. Francisco Santos, the vice-president, called on “bounty-hunters of the world” to help capture terrorists. Colombia says at least seven more guerrilla leaders are in Venezuela, and it wants them extradited.

The United States, which has criticised Mr Chávez's recent curbs on the media and opponents, has given firm backing to Colombia in the argument—and may have helped find Mr Granda. A group of American senators recently called for better relations with Venezuela, which is an important oil supplier. But at her confirmation hearing this week, Condoleezza Rice, the new secretary of state, said that Venezuela's government was “a negative force in the region”. She promised to “work with others to expose that and to say to President Chávez this kind of behaviour is really not acceptable in the hemisphere.”

What now? Mr Uribe has not accepted Mr Chávez's invitation to a bilateral meeting, saying the two should meet in the presence of other Latin American leaders. Brazil's president, Lula da Silva, has offered to mediate. Colombia has promised hard evidence that Venezuela is protecting the guerrillas—something which has been elusive. If there is substance to the claim, even Mr Chávez's friends in the region will press him to crack down. A Latin America composed of democracies no longer thinks it acceptable for one country to harbour another's “terrorists”.

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Immigration in Canada

Sgro goes

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Of strippers, pizza and the minister

THE immigration portfolio is one of the trickier jobs in Canada's government. One of its perks is one of its problems: the discretionary power to hand out ministerial exemptions to grant otherwise inadmissible foreigners the right to live and work in the country. Some 12,000 of these temporary residence permits ("stay-in-Canada-free cards", as critics call them) are issued in an average year—guaranteeing a long queue of supplicants wherever the minister turns.

In two cases Judy Sgro, the minister, bestowed—or is alleged to have promised to bestow—such permits on controversial beneficiaries. On January 14th, that cost Ms Sgro her job. She became the first casualty of Paul Martin's Liberal government, which was reduced to minority status in an election last June in which it had promised to clamp down on sleaze.

Ms Sgro had been under fire since November, when it was revealed that she had issued a permit to a Romanian woman who had worked on her election campaign. To the prurient delight of the opposition, the woman was a stripper who had come to Canada in 2003 (along with 552 other Romanian women) under a special programme to fill a shortage of labour in the "exotic-dancing" business.

It then emerged that Ms Sgro's chief of staff had paid a visit to a strip-club operator to discuss his problems in bringing in dancers from the Dominican Republic—shortly after the bar owner had made a generous donation to the Liberal Party. Another member of her staff had links with the Tamil Tigers, a terrorist group.

But what did for Ms Sgro was the publication of an affidavit from Harjit Singh, a restaurant owner due to be deported to India. He claimed that Ms Sgro had promised him a permit if he provided free pizzas and volunteer staff to her office during the election campaign. Ms Sgro vigorously denies this—and Mr Singh is hardly a reliable witness. Shortly after the election, a court ordered him and his family to repay C$900,000 ($750,000) stolen from Canada's largest banks in an elaborate credit-card scam. But the allegations were enough for Mr Martin to fire the minister.

Ms Sgro hinted that party rivals had leaked some of the damaging claims. Her replacement, Joe Volpe, another Toronto MP and formerly the human-resources minister, had long coveted the immigration post. It offers any ambitious politician the chance to use temporary residence permits to build a following among Canada's fast-growing immigrant communities.

Ms Sgro's departure has almost certainly delayed reform. She had promised to streamline procedures for accepting eligible immigrants and deporting bogus refugees. Under the present rules, many well-qualified would-be immigrants head elsewhere. Meanwhile, economic migrants arrive on tourist visas and then promptly claim refugee status. Even if their initial claim is rejected, as about 60% are, it usually takes years before deportation. Mr Singh, for example,

came to Canada in 1988. His claims for asylum were rejected. More than 15 years later he was still in the country—and able to bring down a cabinet minister.

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Sport in Brazil

Footloose

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From The Economist print edition

A growing export trade in soccer players

Get article background

AFP

There's many more where he came from

MANY Brazilians resent the fact that their country is often known abroad only for samba and football. Yet while its booming exports range from iron ore to aircraft, they also include footballers. Since the early 1990s, the number of players leaving the country to play for clubs abroad each year has risen from 130 to 850, making Brazil the world's biggest exporter of footballers.

Sadly, export success reflects domestic decay. Last year, an average match in the national championship attracted fewer than 8,000 supporters (compared with 35,000 in Britain's Premier League). One problem is corrupt club management: a Senate inquiry in 2001 found widespread tax evasion and money laundering.

Without professional management, clubs find it hard to pay top wages and players struggle to attract commercial endorsements. Manchester United and Real Madrid (with a Brazilian coach and stars) are global brands. But not since Pelé's Santos in the 1960s has a Brazilian club achieved international fame. Even in the 1980s, heroes such as Zico and Socrates went abroad only after long campaigns for local clubs. Today's stars, such as Ronaldinho Gaucho (pictured), had the briefest of club careers in Brazil before signing for European teams.

Now journeymen are following the stars to Europe. Of last year's exodus, some 200 went to Portugal, mostly to play in the lower divisions but on higher wages than at home. Less obviously, 25 went to Indonesia, while others now ply their trade on football fields from Armenia to Vietnam and Iceland to India. According to Luiz Fernando Sant'Anna, a São Paulo lawyer who specialises in football deals, a growing number are snapped up from youth teams and make their professional debuts outside Brazil.

Brazilian players cost European clubs less than local footballers of equivalent talent. Many fail to adapt to the change in climate and language. Some do and never return: Tunisia's squad at the 2002 World Cup included a naturalised Brazilian. He is an exception. According to the Brazilian Football Confederation (CBF), Brazil imported 499 players last year. Nearly all were ageing returnees.

Luiz Gustavo Vieira de Castro, a director of the CBF, blames the exodus on the salary gap rather than poor management. Maybe so. A few clubs are better-run than in the past. In December,

Corinthians of São Paulo, which has formed a partnership with MSI, a mysterious British firm which many think is backed by Russian-oligarch money, bucked the trend. It outbid European rivals to sign Carlos Tevez, a young Argentine star, for $20m. But already this year, 76 Brazilian players have moved abroad.

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China

Zhao's legacy

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AFP

The disgraced leader bequeathed more to China than is realised

ZHAO ZIYANG, the disgraced former leader of China's Communist Party, who died on January 17th, was not the Chinese Gorbachev that many at home and in the West hoped that he was. Before his downfall in 1989, after he had opposed the crushing of a pro-democracy protest in Tiananmen Square, and during the house arrest he endured for the rest of his life, he spouted the same denunciations of western political thinking that have long been a feature of official Chinese propaganda, right down to the fearsome Document No. 29, issued by the party's central secretariat late last year. He opposed diluting the party's control. “I believe that Chinese citizens can enjoy genuine democracy and freedom under the leadership of the party,” Mr Zhao told the then Soviet leader during his visit to Beijing in May 1989 as thousands of protesters filled nearby Tiananmen. Mr Gorbachev was their hero, not Mr Zhao.

Still, he remains an iconic figure. The party has sought to prevent any public mourning for Mr Zhao, has barred known dissidents from his house and was this week deleting e-mailed messages from websites mourning him. But the curious truth is that the politics of China's current president, supreme military commander and party chief, Hu Jintao, are closer to those of Mr Zhao than many Chinese liberals would like to think.

After a prolonged freeze in China during the fall of communism elsewhere in the world, many of the political reforms that Mr Zhao is praised for having pioneered have been implemented. These

reforms, unveiled at a party congress in 1987, were aimed at improving China's administrative and economic efficiency, not at transforming its political complexion.

Mr Zhao most famously called for a separation of party and government functions. But his emphasis was on lower levels of administration. He wanted the party to stop interfering in the running of enterprises and universities. He wanted a more independent judiciary and more professional civil service. Some of this has happened. True, the party today still controls the appointment of chief executives of large state enterprises as well as top officials at every level. In many cases these people also hold concurrent posts as party bosses. But the party is far less involved in day-to-day management and in deciding the outcome of court cases—except, of course, for sensitive political ones.

Mr Zhao's speech in 1987 was also notable for having recognised a degree of plurality in China, and for acknowledging that “different groups of people may have different interests and views.” He called for the setting up of channels through which these views could be expressed.

In 2002, the party changed its charter in order to reflect the growth of a new middle class, letting private business leaders become party members (a policy that had been specifically rejected by the leadership in the conservative chill that followed the Tiananmen massacre). It has tried in some places to make elections to local legislatures more democratic, allowing independent candidates. Experiments launched under Mr Zhao with the election of village chiefs by universal suffrage have been extended throughout the countryside. And the party has recently encouraged more public involvement in the drafting of some local legislation by holding open hearings. Although Mr Zhao became a non-person after Tiananmen, his 1987 speech is part of the party's official canon.

In the wake of Tiananmen, the leadership turned its attention to pulling out the roots of a civil society that Mr Zhao had allowed to grow. The independent think-tanks whose liberal scholars had worked closely with Mr Zhao's own advisers were seen as a threat to the party's political monopoly and forced to close. By the late 1990s, however, independent think-tanks and consultancies had become far more abundant than they had ever been in Mr Zhao's day, even in the short-lived “Beijing spring” of 1989. Even one of the think-tankers who had been jailed for his role in the unrest, Cao Siyuan, was back running a consultancy and publishing bold demands for political reform—albeit under varying degrees of surveillance by the secret police. Another well-known consultancy in Beijing, the World and China Institute, gives advice to officials around the country on how to conduct elections.

President Hu could well be described as a neo-authoritarian, a term much in fashion among Mr Zhao's admirers in the buildup to Tiananmen. So too could Jiang Zemin, who succeeded Mr Zhao and retired last year. Proponents of neo-authoritarianism in China believed that in order to progress towards greater democracy, China needed strong, enlightened leadership that would keep the party in power during the long process of economic and political restructuring. They were inspired by the successes of authoritarian governments in the region, such as in South Korea and Taiwan. Like Mr Zhao's close advisers, today's neo-authoritarians in China see full, western-style democracy as a very distant goal.

In recent days, the contents of document No. 29 have been relayed to journalists at China's state-controlled media. Its full details are still secret, but some of its points have been quoted on official websites. It gives warning of a variety of ideological threats, from overseas religious groups and Falun Gong, an outlawed quasi-Buddhist sect, to dissidents abroad demanding a multi-party system. Incredibly, given China's rush to embrace capitalism, it even attacks advocates of privatisation. It cites the internet and some poorly regulated newspapers in China as conduits for dangerous views.

But ideological crackdowns are not what they used to be in Mr Zhao's day, when party control was far more pervasive and any hint of tightening would quickly send ripples of unease across the nation. Despite the efforts of the censors, tributes to Mr Zhao were popping upon internet bulletin boards this week as fast as the authorities could remove them. As the lost leader would probably have wanted, the party remains firmly in power—but less feared and far less conspicuous.

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Japan

Playing with fire

Jan 20th 2005 | TOKYO
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Japan's ruling party wants to inject patriotism into schools

Get article background

THE timing struck some as particularly unfortunate. This week, ten years after an earthquake killed 6,433 people in Kobe, a worthy international conference there drew lessons from natural disasters in Japan and elsewhere. Meanwhile in Tokyo, a rather less worthy gathering of members of the ruling Liberal Democratic Party (LDP) assembled to ignore the lessons of another terrible disaster—this one man-made, and the cause of far more death and destruction. In the course of approving its policy agenda for 2005, the LDP decided that it would revise the country's basic law on education. The current draft revisions include a plan to make pupils more patriotic. Because patriotic-sounding educational "reforms"—following the Imperial Rescript on Education in 1890—also preceded Japan's 20th-century descent into militarism, this is an inflammatory idea.

The draft revisions, which include platitudes about modern learning and better teaching, say that Japanese schools should foster a sense of *aikokushin* among pupils. This word could be translated as "love of country", but to most Japanese it has other—and liberals would say darker—connotations. Many Japanese are indeed discovering things to love about their country these days, but *aikokushin*, say worried liberals, implies devotion to a particular idea of Japan: as a uniquely entitled nation supported by hard-working but unquestioning citizens. And although a return to militarism and rampant chauvinism seems hugely unlikely, the LDP's latest ideological games risk antagonising Japan's neighbours and reopening deep domestic wounds.

Start with the neighbours. Junichiro Koizumi's annual visits to the Yasukuni shrine, where the souls of Japanese war criminals are enshrined along with fallen soldiers, have infuriated many Chinese, South Koreans and other Asians. The prime minister says that he will keep going there, and that neighbouring politicians should calm down. They might find this easier, however, if some Japanese history textbooks did not gloss over Japan's imperialist past. Now the LDP wants to teach patriotism as well as revisionist history.

The LDP's educational revisions could do even more damage at home. During the cold war, many left-wing teachers embraced extremist notions about Japan's government and its alliance with America, and they were fond of using war guilt as an ideological weapon in classrooms. Over the past 15 years, however, those divisions have faded from politics, and from many classrooms as well. Enacting the patriotism clause now could erase that progress and reignite the ideological wars. Many teachers are already upset with the nationalist governor of Tokyo, Shintaro Ishihara, for pushing devotion to the national flag and anthem in the capital's schools.

The proposed patriotism clause also distracts attention from the serious need for real educational reforms in Japan. The quality of teaching varies greatly. Discipline is a huge problem. Unpopular pupils stay at home for fear of being bullied, and many classrooms are unmanageable. Meanwhile, Japan is also trying to transfer more power towards local governments, while trimming its huge

national deficit and debt. There is plenty to debate, especially ideas for getting teachers to perform better. Yet if it presses ahead with a controversial law, the LDP will give teachers the perfect excuse to avoid doing so.

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Australia

Out with the new

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Mark Latham quits abruptly as opposition leader

Get article background

Reuters

Struck down

FOR the third time in just over three years, Australia's opposition Labor Party is looking for a new leader. Mark Latham, who took over only 13 months ago promising to revive the party's electoral fortunes, resigned abruptly on January 18th in circumstances that were odd even by the standards of Labor's recent bumpy history. At only 43, Mr Latham's meteoric political career lies in ruins. More seriously for his party, Labor seems as far from regaining power as at any time since it lost to the conservative coalition, led by John Howard, almost nine years ago.

Mr Latham was visibly shattered when he led Labor to one of its worst election defeats last October. At first, his withdrawal from view over the Australian summer holiday season was interpreted as an exercise in rejuvenation. Then came the devastating Indian Ocean tsunami on December 26th. As Australians poured out condolences, and Mr Howard pledged A$1 billion ($760m) in aid to Indonesia, its neighbour and the country worst hit, there was a crashing silence from Mr Latham.

Over the next two weeks, the media demanded to know why the opposition leader had made no statement on such an overwhelming regional catastrophe. Expressions of sympathy from Mr Latham's colleagues only heightened the mystery. It then emerged that Mr Latham was ill with a renewed attack of pancreatitis, which had laid him low before last year's election. Eventually, on January 13th, he issued a brief statement saying news about his health had “not been good”, and suggesting he would return to work after a “total break” on January 26th.

His party, and the media, did not give him that chance. Mr Latham's less than revealing statement provoked a frenzy of speculation about his health. “Latham Blackout”, declared the front page of a tabloid, suggesting something more sinister than its story of the leader's self-imposed quarantine. According to one Labor parliamentarian, even Mr Latham's closest colleagues were unable to communicate with him.

Finally, the premiers of Australia's six states, all Labor-ruled, publicly abandoned their federal colleague. They feared being caught up by the drama's backwash, especially in Western Australia where Labor will be struggling to hold on to power in a state election due soon.

On January 18th, Mr Latham appeared in public for the first time since the tsunami to announce he was quitting the leadership and his parliamentary seat of Werriwa in Sydney's sprawling western suburbs. Looking wan, he said his pancreatic condition was “incompatible with the demands and stresses of a parliamentary life.” People sympathised with his condition; but by then he had run through all of his political capital.

Mr Latham's leadership was an experiment that blew up. A man of original ideas, with what one colleague described as “strokes of tactical brilliance and breathtaking political intuition”, he was often erratic, irascible and a one-man band on policy, who brushed away advice and treated the media with contempt.

At a meeting due on January 28th to choose a new leader, the Labor Party may turn once again to Kim Beazley, a deputy prime minister in the last Labor government in 1995-96. At 56, and after 24 years in parliament, Mr Beazley has a predictability that shell-shocked Labor needs. He rates well in opinion polls. As opposition leader, he only narrowly lost elections to Mr Howard in 1998 and 2001. Mr Latham made Mr Beazley his defence spokesman last year to fend off charges that Labor was soft on defence. Mr Beazley now says that he is “absolutely fired with ambition” to resume the leadership. But at least one young Turk, Kevin Rudd, currently Labor's foreign-affairs spokesman, is also ambitious to take over. Whoever is the victor, the uphill task of saving Labor from a fifth successive election defeat lies ahead.

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Singapore and Malaysia

Better neighbours

Jan 20th 2005 | KUALA LUMPUR
From The Economist print edition

A truce across the Johor strait

FOR most neighbouring countries, an agreement on the use of a shared waterway, some big cross-border investments or talks on remodelling a border crossing would be workaday, technical issues. For Singapore and Malaysia, they are fraught. Indeed, since Singapore split acrimoniously from Malaysia in 1965, the two have argued over just about everything. All the more remarkable, then, that they have agreed to all three steps in recent months and are tackling their other disputes.

All manner of quarrels mar ties between the two countries. Singapore wants permission for its air force to train in Malaysian airspace. It also wants Malaysia's railway to move its passenger terminus (which, thanks to history, it still owns) in Singapore. Malaysia, for its part, wants Singapore to hand over the pension payments of Malaysians who work for a time in Singapore but move away before they reach retirement age. It also wants to replace the causeway linking the two countries with a bridge. The most heated arguments concern the price of the water Singapore buys from Malaysia and sovereignty over a small rock in the Singapore strait, known as Pedra Blanca or Pulau Batu Putih, depending on your point of view.

Mahathir Mohamad, Malaysia's former prime minister, viewed all these issues as grave points of principle. When Singapore refused to replace the causeway, he proposed demolishing the Malaysian half anyway and replacing it with a bridge, even though the limited space would have necessitated a wonky, dog-leg design. He threatened to increase the price of water or even cut off the supply, prompting Singapore to embark on an expensive recycling project. His government also hauled Singapore before two different international tribunals, over both Pedra Blanca and a Singaporean land-reclamation scheme along the Johor strait, the narrow channel separating the two countries.

Earlier this month, however, negotiators for the two sides agreed on a settlement of the reclamation case. They released a statement saying that the deal “augurs well for the further strengthening of good relations between these two friendly and close neighbours.” Singapore has now offered to release Malaysians' pension contributions in exchange for access to Malaysian airspace. Sensing a new mood, railway employees have even taken down a cheeky sign at the station in Singapore welcoming passengers to Malaysia.

On the economic front, things are moving even faster. Malaysia used to insist that anything Singapore could do, it could do better. Dr Mahathir's government encouraged the development of a massive new port, for example, in direct competition with that of Singapore. Moreover, Dr Mahathir was determined to recapture the commanding heights of the Malaysian economy from the Chinese businessmen who dominated it. He steered capital towards firms owned by Malays or the state, hoping to create Malay-run national champions. Companies from Singapore, largely Chinese, did not get a look in.

Last year, however, Malaysia's new prime minister, Abdullah Badawi, approved the sale of stakes in a local bank and the state-owned telecoms company to Temasek, the Singaporean government's main investment arm. The Malaysian and Singaporean governments are now said to be planning joint investments overseas, and the two countries' stock exchanges plan to start trading one another's shares. Mr Badawi likes to compare the two countries to a semi-detached house. By that analogy, neighbours who used to bang on the walls are now sharing utilities.

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After the tsunami

The forgotten

Jan 20th 2005 | KHAO LAK
From The Economist print edition

Migrants from Myanmar are suffering in Thailand

OF ALL the countries struck by the Indian Ocean tsunami, Myanmar may have got off lightest. Its official death toll is just 59. Exiled opposition groups are sceptical of this figure, given the track record of Myanmar's secretive regime, though aid agencies broadly concur. But while those at home escaped the worst, Myanmarese workers in neighbouring Thailand have suffered a double calamity.

Around 120,000 of them work in southern Thailand, half of them illegally, in fishing, construction and agriculture. At least 2,500 are estimated to have died in Phang Nga province, which took the biggest hit on December 26th. One fishing village was reduced to mud and rubble, while most of the resorts on nearby Khao Lak beach are now fit only for the bulldozer.

Now the migrants who survived the tsunami are caught in a bind. In recent weeks, Thai police have rounded up migrants, accusing them of looting or illegal entry and deporting them. Even documented workers say they are too scared to come out. The Thai government claims that humanitarian assistance has gone to all who needed it, regardless of nationality or legal status. But aid workers say local officials and villagers are loth to share their funds with the Myanmarese. In any case, few migrants speak Thai or are bold enough to press for help.

Myanmar's embassy hasn't even bothered to inquire after its nationals, let alone sent officials to the scene. The confirmed death toll in Thailand is 5,322. But the corpses of suspected migrants go unclaimed because Myanmarese are too afraid to visit the mortuaries where Thai and foreign forensic teams are busy trying to identify the victims. Myanmarese volunteers have estimated the death toll in Phang Nga by interviewing villagers, migrants and their employers. The rest is deduction. “We have a growing number of bodies that are unidentified. No one is claiming them. The assumption is they are Myanmarese,” said a UN official.

There is some hope, though, that market forces could help the survivors. The rebuilding of damaged resorts has begun, even before government money starts to flow. Banks are rolling over loans to property investors. All this should mean plenty of dirty, dangerous jobs for Myanmarese migrants.

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Pakistan

Baluchi blues

Jan 20th 2005 | LAHORE
From The Economist print edition

Tribesmen are outraged by a sex crime

IN PAKISTAN, appalling crimes against women, such as honour killing and gang rape, are generally reported, if at all, in brief and on the inside pages of newspapers. Yet the rape of a female doctor two weeks ago in Sui, a town in the conservative, western province of Baluchistan, has made front-page headlines. What has caused this rush of conscience in one of the world's more male-chauvinistic parts?

Not, alas, the rape itself, which was unextraordinary. Two weeks ago, Shazia Khalid was raped by four men at Sui hospital, where she works. One of her attackers was allegedly an army captain of the Defence Security Group (DSG), a unit whose job is to guard local gas installations owned by Pakistan Petroleum Ltd (PPL), a state-owned company. Scenting an opportunity for confrontation with the government, leaders of the local Bugti tribe demanded justice. Whereupon the PPL and DSG rejected calls for an investigation and whisked the victim off to Karachi, forbidding her to speak to journalists.

If the authorities were hoping to hide the crime in Sui, they failed. Bugti tribesmen have launched attacks on gas pipelines running through their area, forcing gas plants to close and causing energy shortages across the country. Thousands of tribesmen have converged on Sui, as have government soldiers.

Behind the tribesmen's zeal is a long-standing antipathy to the government in faraway Islamabad, and resentment at its recent policy of sharing power with local mullahs, rather than with them. More specifically, they think they should get more cash for gas pumped from beneath their ancestral land, and they are wont to blow up pipelines when more cash is not forthcoming. In recent months, they have blasted pipelines at an accelerating rate.

The tribesmen's leader is Nawab Akbar Bugti, a prickly old Baluch nationalist who has been agitating for Baluchi rights in general, and in particular for an increased share of gas revenues, for decades. Other tribal leaders are joining him. Indeed, the Baluchi nationalist movement, for many years a rabble, has lately appeared unusually well organised. A little-known group, calling itself the Baluchistan Liberation Force, has attacked military posts and blown up bridges. In a country rumbling with sectarian discord, where will it end?

In war, if Pakistan's president, Pervez Musharraf, has his way. He appears to be itching to take on the “terrorists”, as he calls the tribesmen—just as he did when sending troops into South

Waziristan, another defiant tribal region, last year. But on this hardly anyone in Pakistan agrees with the president, even in the ruling Pakistan Muslim League party, which generally supports him. The army has won little in South Waziristan, at the heavy cost of several hundred lives. Such was the case in Baluchistan in the 1970s, when 100,000 soldiers were sent by Zulfikar Ali Bhutto to end a small insurgency. By the latest reckoning, they seem to have failed.

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Iraq's Kurds

The temptation to break free

Jan 20th 2005 | ARBIL AND SULAYMANIYAH
From The Economist print edition

AFP

As Kurds prepare to vote, we look at their growing sense of independence and, in a second article, at the flashpoint of Kirkuk

Get article background

HEAD north across the “green line”, as the de facto border between the Kurdish-ruled chunk of Iraq and the rest of the country is known, and you feel you are in another country: as the Kurds like to put it, you leave a state of emergency and enter an emerging state. But will it stay that way? It is still unclear whether Kurdistan will willingly stay part of a federal Iraq, as its leaders promise, or whether its people will seek to break away altogether.

In any event, the Kurdish region's borders have yet to be definitively drawn. It is an issue still bound to cause huge tensions between Iraq's Kurds and Arabs (“Iraq's two nations”, in Kurdish parlance), especially over the disputed city of Kirkuk (see article). Moreover, the powers of a Kurdish region, however delineated, within a federal Iraqi state are still to be decided, and will be fiercely debated by the constitutional drafters chosen by the national parliament that is to emerge after this month's election.

For now, the Kurds are revelling in their autonomy. While death and mayhem stalk the streets of Baghdad and the Sunni triangle, around 3.7m or so people live fairly normal lives in the Kurdish enclave created in 1991 after the western allies ousted Saddam Hussein from Kuwait in the first Gulf war.

The Kurds have no emergency law. The police and 80,000-odd *peshmerga* (former guerrilla) fighters answer to politicians. Crime is low. When windows rattle, it is more likely to be thunder in the Zagros mountains than a car-bomb. Reconstruction, which rebels have halted in swathes of Iraq, is brisk: residential blocks, hospitals and shopping malls are going up fast.

In Arbil and Sulaymaniyah, the Kurds' two biggest cities, new firms are sprouting; businessmen from abroad, especially Turkey, are sniffing opportunities. Some foreign oil firms are keen to exploit untapped mineral deposits. Both cities have new airports being built by Turkish companies: Sulaymaniyah's is due to open within months; Arbil's, still under construction, will be bigger. (Though Turkey's government remains nervous about the emergence of a quasi-independent Iraqi Kurdistan, it may be softening towards the idea; and Iraq's Kurds have become keen to reassure the Turks that they do not harbour plans to help their ethnic kin in Turkey to rise up or join them in a greater Kurdistan.)

“You can't exaggerate the differences between here and the rest of Iraq,” says Mehmet Yilmaz, a Turkish investor. “They speak a different language and think a different way.” Azzad Sediq, a popular host on a Kurdish satellite TV channel, concurs: “We never wanted to be part of Iraq, and now more than ever we don't want to be dragged down by the chaos there.”

The Kurdistan Region, as is it officially called under Iraq's “transitional administrative law” (TAL), in effect an interim constitution drawn up by the Americans before they handed sovereignty back to Iraqis last summer, consists of three of Iraq's 18 provinces: Dohuk, Arbil and Sulaymaniyah. At least another 1m Kurds live to the south of the green line, plus perhaps another 750,000 in Baghdad. Kurds make up, in all, about a fifth of Iraqis.

Two Kurdish parties share power in the regional parliament in Arbil: in the two northerly provinces bordering Turkey, Massoud Barzani's Kurdistan Democratic Party (KDP) predominates. Further east, along the Iranian border, Jalal Talabani's Patriotic Union of Kurdistan (PUK), which broke away from the KDP in 1970, rules the roost from its headquarters in Sulaymaniyah. Despite a fratricidal war between 1994 and 1998, in which 3,000-plus people were killed, the two parties now sit edgily together in the parliament in Arbil, in Mr Barzani's zone. They have presented a joint list of candidates both for the general election and for the regional one that is being contested on the same day and say they will form a joint administration in Kurdistan; they will compete against each other only in provincial elections.

Our slice of the cake

Since Iyad Allawi's interim Iraqi government took office last summer in Baghdad, the Kurds have had a prickly relationship with it over such issues as budget allocations and the Kurdistan regional government's insistence on being able to award oil contracts in its area. “The days of centralised government are over,” says a minister in the Kurdish government. This year, the Kurds are due to get 17% of revenue from the central government.

But, once this month's general election is over and a new transitional assembly in Baghdad starts to draw up a new and permanent constitution, arguments over the most basic issues of borders and autonomy are bound again to threaten the fragile understanding that Kurds and Arab Iraqis (those, at least, who have not joined the insurgency) have enjoyed since Mr Hussein fell nearly two years ago.

The controversial Kurdish veto

In particular, Iraq's Shia Arabs, who make up some 60% of the total populace and are sure to dominate the new parliament, object to a clause in the interim constitution which allows two-thirds of the voters in three provinces to block constitutional amendments, thereby giving the Kurds (and, for that matter, Iraq's Sunni Arabs, also about a fifth of the total) a veto. There is also a growing movement among Shia intellectuals for a self-rule area in the south, centred on Basra.

Tension is rising in Kurdish circles too. Some Kurds want wide autonomy in a federal state; others want independence. Many are ambivalent: they accept federalism today but might seek independence if the rest of Iraq fell deeper into chaos, or if their Arab compatriots scrapped the TAL's effective veto, or refused to widen the territory of the federal region to include areas now in effect run by the Kurds. These include the oil-rich city of Kirkuk, to the south of the officially designated Kurdish provinces, which virtually all Kurds consider part of historic Kurdistan.

The independence-seekers seem to be gaining strength, especially among the younger generation and intellectuals. Sherko Bekas, a poet in the van of a movement calling for a referendum among all Kurds on whether they should be able to vote for self-determination, says that more than 2m Kurds have signed up to his idea. He wants separate ballot papers in all polling stations on January 30th, asking Kurds to plump for “federalism or independence”. “The unity of Iraq is not sacred,” cries the movement's newspaper this week on its front page.

Messrs Barzani and Talabani say they can fulfil the Kurds' national aspirations in a federal system. To that end, their proxies have played a big part in the interim government in Baghdad, while trying to resist encroachment by the central government on Kurdish powers in the north. “Whatever happens in the future, the Kurds will be better off if Baghdad and the rest of Iraq are democratic and peaceful,” says Barham Saleh, a Kurd who has been a deputy prime minister in Baghdad. “That's what we're working to achieve.” The Kurds, he insists, must build alliances across Iraq. “What happens in the rest of Iraq does matter to Kurdistan.”

Other top Kurds, such as Hoshyar Zebari, Iraq's current foreign minister, and Roj Nuri Shawis, one of two vice-presidents, share this view of federal co-operation, and hope that, as a reward, in the broad Shia-led government likely to emerge after the election, Kurds will win some plum jobs. Mr Talabani may bid for president or prime minister, while Mr Barzani, a younger man, could then stay up north as president of a Kurdish state within Iraq's federation.

But this depends on the Kurds first striking a deal—over territory and devolution, among other issues—with the central powers in Baghdad. And the longer the insurgency goes on and the weaker the government in Baghdad appears, the stronger the chances that the Kurds will give up co-operation—and bid for independence.

The conundrum of Kirkuk

Who will get it?

Jan 20th 2005 | KIRKUK
From The Economist print edition

Can a bitterly disputed city be given a special status—or help spark a civil war?

IN THE rubble of the hillside village of Shwan, a few miles north of Kirkuk, Kurdish women with cigarettes in their mouths mix cement, while children lug jerrycans of water and the men give orders. At least 30 families in the village, destroyed by Saddam Hussein in 1987 during his ferocious Anfal ("booty") campaign to Arabise northern Iraq, have returned in the past year or so, apparently enticed back by tonnes of free cement and grants of $1,000 (some say more) per family from the local office of the Patriotic Union of Kurdistan (PUK), one of the two parties that runs Iraq's Kurdish region. Shwan is just one of dozens of Kurdish villages razed by Mr Hussein that are re-emerging.

This alarms Iraqi Arabs. They see the Kurds forcibly grabbing back more of northern Iraq—including the area around Kirkuk that holds the country's richest oilfields—and extending their domain closer to Baghdad and the Arab heartland.

The Kurds, naturally, beg to differ. They worry that too few of their ethnic kin have returned to the area to reverse the demographic change (so brutally wrought by Mr Hussein) in time to ensure that, by giving Kurdish parties the biggest vote in this month's election, they will be able to bring Kirkuk province (also known as Tamim) into the embrace of a wider Kurdish federal region. Indeed, many Kurdish leaders want Kirkuk to be the new capital of Kurdistan; they call it "our Jerusalem".

As the election approaches, Kirkuk's ethnic tensions have risen. Kidnappings, intimidation and murder of politicians and electoral workers have increased. Party offices have been raked with gunfire, campaign posters torn down or defaced.

This week, the main Kurdish parties threatened to boycott the entire election unless Kurds displaced from Kirkuk by Mr Hussein were allowed to vote there. The crisis was defused by the head of Iraq's election commission in Baghdad, backed by the Americans, who said that Kurds who can provide proof that they had been uprooted by Mr Hussein's regime after 1975, when his Arabisation took off, would indeed be allowed to vote. So at least 100,000 more Kurds (some guess 150,000) are now expected to vote in Kirkuk.

This threatens to upset the delicate ethnic balance that has held since Mr Hussein was overthrown nearly two years ago. The city's diverse communities—Kurds, Arabs, Turkomen and Assyrian Christians—have managed to get along, only just. The Americans appointed 15 Kurds, 11 Arabs, nine Turkomen and five Assyrians to run the provincial council: no community held an outright majority. That may now change. With their extra voters, the Kurds may be able to run the show on their own. So Kirkuk's Turkomen and Arabs now threaten to boycott the election. If it goes ahead, violence could break out. Some even fear it could spark a nationwide civil war.

The argument has always been about demography and numbers. No one is certain of Kirkuk's population figures, now or in the past. Each main group—Kurdish, Arab or Turkomen—says that "historically" it is the most numerous. But none can agree on the date when history began.

The Kurds cite statistics from the Ottoman Encyclopaedia at the end of the 19th century, which shows they made up three-quarters of the province's population. The Turkomen, kinsfolk of the former Turkish rulers, look to a census some 20 years later, by which time the Ottomans had settled many of their ethnic brethren in Kirkuk city. And the Arabs quote Mr Hussein's last census, in 1997, when Arabs were said to comprise 58% of the city's population and the Kurds only 10%, with Turkomen, Assyrians and others making up the rest. But these figures may reflect the fact that if Kurds refused to identify themselves as Arabs they were liable to lose their land.

Since Mr Hussein's fall, the Kurds have struggled to persuade their people to leave the safety of the undisputed Kurdish region for the turbulent borderlands further south and west. American commanders say about 75,000 had returned by the end of the summer; since then, the homecoming flow has slowed sharply. Yet Kirkuk's deputy governor, Hassib Roshbayani, a Kurd, has stated bluntly that "300,000 Kurds must come back and 300,000 Arabs settled by Saddam must go." Some senior Kurds simply want to expel the Arabs. Many, perhaps most, of the Arabs Mr Hussein settled on Kurdish lands have fled, though Arabs maintain a strong presence in the city. Some senior Arabs, in return, have threatened to kick the 750,000 or so Kurds in Baghdad out of the capital.

No solution in sight

The Americans have largely washed their hands of the Kirkuk problem. An American grant worth $100m to fund the Kirkuk Foundation to promote ethnic harmony remains largely undisbursed. Little of the $180m earmarked to pay for resolving property disputes and to compensate the displaced has been dished out. The Iraqi Property Claims Commission, set up a year ago, has settled only about 120 claims in Kirkuk (out of several thousand lodged), finding it nigh-impossible to find even-handed judges whose verdicts would be accepted by both sides.

For now, the Kurds are on top. They already hold key posts in Kirkuk's provincial government. The governor is a Kurd. So are the heads of the agricultural department (which controls the distribution of state land) and the police. Kurdish-led patrols go as far south as Khanaquin, barely two hours' drive from Baghdad.

For the moment, the conundrum of Kirkuk lies unsolved. The constitution to be written after the election may, perhaps, give it a special status whereby power must be shared. Whatever census is taken (no one seems to know when) is bound to be disputed. The peaceful adjudication of property claims seems far away. The city and its surroundings are a tinderbox.

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Congo

An almost hopeless case

Jan 20th 2005 | GOMA AND KINSHASA
From The Economist print edition

The world's bloodiest war goes on—and on

Reuters

Kinshasans prepare for elections

THE people of Congo—arguably, the world's biggest disaster zone—are used to being betrayed, but they are not yet beaten. On January 7th, the head of the country's electoral commission hinted that elections scheduled for June would be postponed. A mob of students and street-kids then surged through Kinshasa, the country's seamy capital, demanding elections on time. To stress their point, they built barriers of burning tyres and pelted riot police with stones. Returning fire, the police killed four people—who have been deemed "martyrs of democracy" in the splodgy pamphlets circulating the city.

That the protesters might want a chance to elect new leaders is understandable. The current government, largely a coalition of rebels spawned by nearly a decade of on-off war, was formed 18 months ago to guide the Democratic Republic of Congo to peace and, indeed, democracy. Unsurprisingly, given its members' qualifications, it has done nothing of the sort. It has passed almost none of the laws needed for elections, according to the terms of a peace deal brokered by South Africa. Lawmakers spend more time touring the country, in new suits and on fat *per diems*, than working in their offices in Kinshasa. As for the 36 ministers, they are otherwise busy. On January 3rd, six ministers were sacked for corruption after an audit of state-run firms.

This sparked a row between the country's president, Joseph Kabila, a 34-year-old former taxi driver, and one of his four vice-presidents, Jean-Pierre Bemba, a gargantuan former rebel leader, whom officials at the International Criminal Court would like to talk to about his former fighters' alleged habit of cannibalism. In South Africa this week, Mr Bemba threatened to quit the government if elections could not be held on time—and if one of the fallen ministers, formerly of his rebel group, was not reinstated.

If Mr Bemba were to quit, the government might be considered to have collapsed. He is the only former rebel to have retained serious power in government. As Congo's war continues, new rebel leaders in the bush have replaced other former rebels in government.

This week, the UN reported that 20,000 refugees had fled north-eastern Congo into Uganda, after two separate conflicts erupted. The first involved two tribal militias—both, during previous phases of Congo's complicated war, armed by Uganda. The second was between rebels armed by Rwanda and a militia loyal to Mr Kabila, both of which are represented in the government. After clashes between these groups in December, the rebels shot dead or burned alive at least 30 villagers, after accusing them of aiding their enemy, according to the UN. In December, the International

Rescue Committee, an American charity, reported that at least 3.8m people had died of war in Congo in the past six years, most through destitution or disease.

Even if Mr Kabila's government holds together, it will not be able to end this warring. In his new year's address, Mr Kabila said that cash earmarked—or so he claimed—for development would have to be diverted to buy bullets, to stave off the threat of an invasion by Rwanda, the rebels' former sponsor. This would not be money well spent. In December, Mr Kabila sent 10,000 troops to eastern Congo's North Kivu province to tame the rebels, following belligerent noises in Kigali, Rwanda's capital. Vital Kamerhe, who runs Mr Kabila's political party, promised to take the battle “to the streets of Kigali”. In the event, 2,000 of these warriors deserted, rampaging through villages as they fled west. The rest fought, displacing 100,000 civilians, without much changing the balance of power in eastern Congo—or bringing democracy any nearer.

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Russia's protests

The shock of the old

Jan 20th 2005 | MOSCOW
From The Economist print edition

Reuters

Vladimir Putin is facing the most widespread protests of his presidency. What will they mean for the rest of it?

THE protests were most energetic in St Petersburg, the home town of Vladimir Putin, Russia's president. But they spanned the entire country, from the Gulf of Finland, to the north Caucasus, to Khabarovsk and Sakhalin island in the far east. Russia's own revolution? Hardly. But the “grey” or “chintz” revolt, as the protests by thousands of furious pensioners have been christened, may influence the path of Mr Putin's presidency. They also underline how his brand of authoritarianism can still be vulnerable.

To find out which demographic group has fared worst since the collapse of communism, you have only to take a stroll around the Kremlin. Muscovite beggars are generations older than the runaways and addicts who panhandle in western capitals. The average monthly pension is only a little over 2,000 roubles ($70). For many older Russians, the benefits-in-kind that survived, until this year, from the Soviet period, were an essential protection against outright penury. Many also regard free transport and subsidised utilities and medicines as rightful recognition of past services to the state. After the hyperinflation of the 1990s, they also tend to prefer tangible privileges to cash.

Unsurprisingly, then, protests erupted last summer when Russia's parliament approved a plan that would result in most such benefits being converted into cash payments, to be disbursed by a combination of federal and regional authorities. Yet the basic thinking behind the plan was sound enough. The benefits are enjoyed by a mystifying array of overlapping groups—war veterans, the disabled, Chernobyl victims and sufferers from political repression, to name but a few. The system

is unwieldy, expensive, prone to corruption and poorly targeted. And its benefits have been enjoyed unequally by urban and rural dwellers.

But, as Nikolai Petrov, of the Carnegie Moscow Centre, points out, although reforms may sound good in theory, they can be hard in practice. When this one took effect on January 1st, incompetence or cash shortages meant that many who were supposed to receive money from their regions got nothing. And many who were paid found that their new income was not enough to buy what they had lost. As one old man in Khimki, a suburb of Moscow where, as elsewhere, the loss of transport rights was the main grievance, pithily declared, “they said life would be better [after the reform], but it is not better.”

Russians were given an unusually long, ten-day new-year holiday. After it, thousands of pensioners made their feelings known. They blocked roads and blockaded administrative buildings. In some towns, bus drivers who presumed to charge elderly passengers were attacked. Even Patriarch Alexy, head of the Russian Orthodox church and not known for opposing Mr Putin, made tacit criticisms.

Apart from their size and spread, the protests displayed two other features. Big demonstrations during Mr Putin's tenure have usually been organised at the Kremlin's behest. His allies, perhaps struggling to comprehend such a show of independence, claim that these ones were cooked up by political opponents. Some certainly leapt on the bandwagon: Gennady Zyuganov, the Communist Party leader, described the benefits reforms as a “social Beslan”. In fact, the protests seem to have been largely spontaneous. Pensioners present at the eruption in Khimki, where a rally at the Lenin memorial was followed by a blockade of the main road to the airport, attribute the insurrection to word-of-mouth among unhappy locals.

The other feature is that some protesters, at least, blame Mr Putin directly (a few placards even compared him to Hitler). True to form, the president at first kept his head down. Eventually, after seven days of protests, he emerged. Playing the good tsar disappointed by his bad advisers, he blamed ministers and regional administrators, and ordered a bigger and earlier pension boost than had been planned (240 roubles a month, instead of just 100). He praised the regions that had kept transport benefits, and told others to emulate them. He also drew favourable comparisons with the chaotic social security of the 1990s. To assuage protesters and Mr Putin alike, many regions rushed to give back some benefits that had been withdrawn.

Will heads roll? The protests may intensify at the start of next month, when utility bills minus subsidies are sent out. The Communists and others have launched a symbolic bid for a no-confidence motion in parliament. There has even been talk of Mr Putin firing the government. He may yet sacrifice some ministers, perhaps one of the few liberals still left, such as Alexei Kudrin, the finance minister. Mr Putin's own popularity, although down from its peak, remains high. But his image as paternalistic guarantor of stability, venerated by just the sort of people who have been protesting, has been tarnished.

What conclusions will Mr Putin draw? Perhaps that, in the absence of serious opposition and little in the way of independent media, he is more likely to sign flawed laws. In this case, more scrutiny might have led to simple improvements, such as a phased withdrawal of benefits-in-kind, or more generous cash replacements. Perhaps he will note that when he becomes responsible for appointing regional governors—a change that will take effect this year—his scope for buck-passing will shrink. More likely, he will conclude that reform is messy and painful. Creditably, Mr Putin has not surrendered the principle this time. But he may now decide that, given Russia's big oil revenues, he can do without further mess and pain.

He will also notice that a botched refashioning of a Soviet legacy has excited far more unrest than the war in Chechnya or the erosion of Russian democracy. Grigory Yavlinsky, whose Yabloko party

was virtually wiped out in parliament at the last election, says gloomily that the benefit protesters are fundamentally anti-liberal, and that Mr Putin's government has further discredited the whole idea of liberal reform. There are, sadly, precious few orange flecks in Russia's grey revolt.

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The trouble with Naples

See it and die

Jan 20th 2005 | NAPLES
From The Economist print edition

It is past time for the real Naples to stand up

AP

IT IS a bewildering place at the best of times, but rarely has Naples presented such a confusing face. Recent headlines have depicted the city as Chicago in the “roaring twenties”. A war within the Camorra, the regional mafia, over the drugs trade in the suburban district of Scampia seems to be spreading, as rival factions in the divided De Lauro gang seek allies. Camorra assassinations have claimed 35 people in the past four months. The most recent victim was shot in the back and head as he sat at a table in a restaurant in Cardito, just north of Naples.

The violence has cast a pall over the city. “We are at war,” says Don Luigi Merola, a priest in the Forcella parish until he resigned this month, “embittered and disenchanted”. The killings show that the Camorra remains an awesome presence. But they have also provoked an unexpected backlash. Informers this week led police to the alleged murderers of a Camorra member's middle-aged mother. In parts of the city shopkeepers have banded together to defy mounting extortion.

Optimists believe that demands for ever more protection money point to a crisis in the Camorra's other business activities, such as the skimming of commissions off public contracts, a practice the centre-left city government claims to have all but stamped out. That would not be the only good news. Seen from a different standpoint, Naples is another Barcelona or Bilbao: a southern European rustbelt city striving to relaunch itself through art, tourism and big infrastructure projects.

A keystone is an underground railway system, due to be finished in 2011. By then, Naples, with just over a million inhabitants, should have three new lines, integrated with suburban railways and the city's funiculars to create a network of some 100 stations. Many newer ones are being used to display art works; one is being designed by a British-based sculptor, Anish Kapoor.

The imaginative use of these new stations is one reason why, in a ballot conducted by the monthly *Giornale dell'Arte*, critics voted Naples the city that contributed most to the arts in Italy in 2004. They also said that the best exhibitions of the year were in Naples: a Caravaggio show at the Museo di Capodimonte and Damien Hirst's first retrospective at the National Archaeological Museum.

These and other top-flight cultural events help to explain why the city has become such a popular tourist destination. One impulse came in 1994, when Silvio Berlusconi, in his first stint as prime minister, hosted a G7 summit meeting in Naples. The city was spruced up, the usual rubbish heaps were cleared away—and television cameras beamed to the world the attractions of what was once both the capital of an independent kingdom and the third-biggest metropolis in Europe. “Since then, there has been a constant increase in tourist flows,” says Nicola Odatti, the mayor's adviser on tourism and economic development. In the first eight months of 2004, when visitor numbers were falling in most of the rest of the country, Naples saw a modest rise.

But that was before the Camorra's killing spree, which some fear heralds a local economic crisis. The dismantling of heavy industry has left a gap that has been partly filled by a vast black economy: thousands of tiny, often unregistered, firms producing cheap, often counterfeit, clothing and footwear. Officials reckon that about a third of the city's unemployed have jobs in this black economy. Professor Adriano Giannola, chairman of the Banco di Napoli foundation, calls it “a China hidden in the belly of Naples”.

Unfortunately, the real China can manufacture products at prices not even the sweatshops in the plain round Vesuvius (overdue for another eruption) can match. This may explain an upsurge in migration from Naples to other parts of Italy despite falling unemployment (from 28% when the centre-left arrived in power in 1993 to 20% now). The city's problems are deep-seated; it is asking a lot of art alone to put them right.

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Turkey's booming economy

Babacan's miracle

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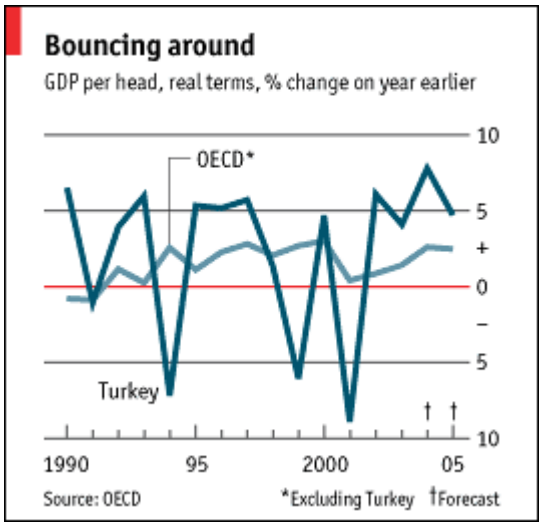
A steady hand has helped to turn Turkey round



THE Turkish economy minister, Ali Babacan, was just 27 when he had his first brush with the World Bank, in 1994. As an adviser to Ankara's mayor, Mr Babacan persuaded the Bank to reopen a multi-million dollar project it was financing, saying the deal was overpriced. The Bank agreed, and the work was done for half the amount. Ten years on, such fiscal prudence has helped Mr Babacan to pull Turkey out of the hangover from the 2001 economic crisis, the worst in its recent history.

Western bankers who were then in despair talk now of Turkey's miracle. GDP grew by a healthy 8% in 2004. Inflation was down to single digits (just over 9%) for the first time in 30 years. As if to cement the markets' confidence, European Union leaders agreed in December to start membership talks with Turkey next October. Their decision came on the heels of a three-year, $10 billion IMF stand-by agreement. Exports are doing well, even to Iraq (which took $1.8 billion in 2004). Nor did the war in Iraq deter tourists, who brought a record $12.6 billion into Turkey in the first nine months of 2004. The banking system, almost bust in 2001, has been restructured with a huge injection of public funds. To celebrate, on January 1st Turkey seamlessly introduced a new lira, dropping six zeros from the old one.

This rosy picture owes a lot to the unprecedented political stability that Turkey has enjoyed since the AK party, led by Recep Tayyip Erdogan, now prime minister, came to power in November 2002, after a decade of fractious coalition rule. Macroeconomic progress has run in tandem with sweeping political reforms that some diplomats call “a silent revolution”. Yet Mr Babacan accepts that more must be done.

For instance, dodging taxes is a national sport; Mr Babacan says overhauling the tax system is a top priority, as is bringing the country's huge black economy—estimates range between 30% and 50% of GDP—into the light. Other challenges include rationalising the archaic farming sector, which employs 30% of the labour force but accounted for a mere 12% of GDP in 2003. A corrupt judiciary must be reformed if embarrassingly meagre foreign direct investment and hoped-for privatisations are to take off (in 2003, FDI per person in Turkey was worth a mere $8, compared with $244 in Hungary and $110 in Poland). If unemployment is not to rise above today's high 10% (in some Kurdish regions in the south-east, it is as high as 70%), half a million new jobs must be created every year.

The government's large debt, amounting to some 74% of GDP, most of it short-term and in

foreign currency, remains a big vulnerability—although the primary (pre-interest) budget surplus of 6.5% of GDP is at least shrinking the debt burden, and lower interest rates are making it easier to service. The current-account deficit is another worry: it touched 5% of GDP in 2004. But the best safeguard for the future is continuing political stability. And some think that means keeping on the clever and impeccably honest Mr Babacan.

Rumours of a cabinet reshuffle are rife. The word is that Mr Babacan, one of the few young, English-speaking ministers, will be given the unpopular job of chief negotiator with the EU. The son of a rich Ankara textile merchant, Mr Babacan has made enemies, some of whom may be happy if he moved on. He refuses favours from members of Istanbul's elite, knowing they will expect favours in return. A penchant for Ferragamo shoes and hair gel aside, Mr Babacan displays none of the ostentation of some predecessors. He prays five times a day and has never touched alcohol, not even in his business-school days in Chicago, he says.

Fellow AK party members envy him for earning the trust of Mr Erdogan so quickly. His wife, who covers her head Islamic-style, is a close friend of the similarly garbed prime minister's wife, Emine. Will he accept the EU job? “I don't want to even think about it,” Mr Babacan says. He may have to do so very soon—and the cause of economic reform in Turkey may need to find a new champion.

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German economics

Four wise men and a woman

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The modernisation of a feudal profession

PUT five economists in a room, on Winston Churchill's arithmetic, and you get five opinions—unless one is Keynes, when you get six. In Germany the sums have usually been simpler: you get just two opinions, with four economists sharing one point of view, and the fifth a token Keynesian, sent by the trade unions. Yet German economists are becoming more like their peers abroad. The typical specimen is becoming more empirical, pragmatic and ready for controversy, after a period when he was usually long on theory and reluctant to criticise colleagues.

This change has now reached the pinnacle of Germany's “five wise men”, the country's council of economic experts. Earlier this month, a public dispute erupted among the five (actually they are four men and one woman). What is more, they are likely to pick as their next chairman Bert Rürup, a hands-on, down-to-earth academic. This could have an influence on policy, for the underlying row among the five wise men was really about how to get the economy growing again. One of them, Peter Bofinger, even called for wage increases in line with productivity growth.

German economists have long had the knack of going their own way. Until the second world war, they hailed mostly from the “historical school”, which held that there was no such thing as economic rationality. In contrast, most are now wedded to neoclassicism, declaring that macroeconomic policy is ineffective and preferring to focus on supply-side issues. Labels such as “Keynesian” or even “pragmatist” have been insults. This partly reflects Germany's cultural fondness for consensus, not a competition of ideas. Michael Burda, an American economist at Berlin's Humboldt University, argues that German economics is only just escaping the middle ages.

Until the 1990s, Germany's marketplace for economists was indeed feudal. To become a professor, an economist with a PhD had to write a second, rarely read thesis. This was a barrier to market entry. Once tenured, economists dealt mainly with assistants, often meeting colleagues only at conferences and at meetings of the Verein für Socialpolitik (VS), Germany's economic association, the self-selecting committees of which have often decided informally who would get a chair. If this cartel-like structure survived longer than in other countries, it was mainly because the German-speaking market was big enough to support it.

Yet size also explains why the system is now coming apart. Economics is a global business, in which Germans often have a hard time competing: they are weakly represented in international journals. Personal mobility is also putting the system under pressure. Young German economists nowadays often spend time abroad, mostly in America. If they come back, they do things differently and tend to rely on international contacts for their careers.

The VS, founded in 1873, has at least learnt to adapt. Thanks to reforms in the late 1990s by its then-chairman, Hans-Werner Sinn, it has become a bit more like the American Economic

Association. Researchers are no longer invited to speak at its annual meetings, but must respond to calls for papers. Mr Sinn also overhauled one of Germany's six publicly funded economic institutes, Munich's ifo, by turning it into less of a forecasting outfit and more of a think-tank. Most of the other institutes have since followed suit.

University economics departments have not stood still. Most now prefer a long list of journal articles to a second thesis. Berlin, Munich and Mannheim, all strongholds of empirical research, have eclipsed Cologne and Münster, once considered the best places for economics. Frankfurt has gone further still: all its professors have studied abroad, and the department even boasts an American-style PhD programme. As for the “wise men”, they are now a far cry from their predecessors, especially since Beatrice Weder di Mauro joined last year, as both the first woman and the first foreigner.

Germany's economists may become more competitive in future. But will this, as some hope, return macroeconomics and neo-Keynesianism to popularity? It is now sinking in that supply-side and demand-side economics need not be incompatible. In 2004 the Kiel Institute for World Economics, once a stronghold of orthodoxy, hired as its president Dennis Snower, another American and a self-declared pragmatist. Yet mavericks such as Mr Bofinger remain exceptions, not the rule.

Nor will the changes in the landscape do enough to involve economists in policymaking. Most do not want to get their hands dirty. When they do, they often indulge in catastrophism. Perhaps Germany should copy another practice from America: let each government hire its own council of economic advisers, instead of relying on permanent “wise men”. The experts would then be more biased, but they would also have more stake in seeing their recommendations implemented.

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France's wine industry

Those vulgar markets

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A business in need of better salesmanship

FRENCH wine can provoke such unsettling feelings of ignorance. Bordeaux grands crus apart, how to tell a Château Haut Badon 2000 Saint Emilion from a Château d'Aurilhac 2000 Haut Médoc? The need to demystify things for foreigners ill-versed in the 57 Bordeaux *appellations* is now causing a row in a troubled industry. Between 1994 and 2003, the French share of imported wine fell from 26% to 16% in America, and from 37% to 23% in Britain. At home, consumers are drinking less: in the past ten years, the share of French people drinking wine each day has shrunk from 30% to 23%.

The problem is worst in Bordeaux. The very top wines still command top prices, but others are struggling. Exports to America fell by 30% in the 12 month-period to September 2004, says the Conseil Interprofessionnel du Vin de Bordeaux. The unsold surplus from the 2004 harvest stands at 213m bottles, 23% of production. A strong euro and anti-French sentiment are only partly to blame. “A new class of consumer wants a label that's easy to read and a product that's easy to drink,” says Renaud Gaillard, of the Fédération des Exportateurs de Vins et Spiritueux. “That's where the French have difficulty.”

Hence the controversial plan to allow two wine-making systems to coexist in a single region. Bordeaux wine-makers can produce only under the strict rules of the Appellation d'Origine Contrôlée (AOC); they cannot make cheaper *vin de pays*. Creating a parallel *vin de pays* would, for example, allow producers to add oak chips to produce the flavour that AOC wine-makers achieve only from maturing wine in oak barrels. Purists are outraged. They see a slippery slope towards a vulgar, market-driven industry, sacrificing centuries of craftsmanship. Wine cannot be made like Coca-Cola, argue traditionalists, but is the product of a particular *terroir*. And where to draw the line? Should only *vin de pays* mention grape varieties, which consumers of new-world wines like?

While French wine-makers argue, others are adapting French wine for foreigners. Gallo of California is about to market a wine called “Pont d'Avignon” in America. “It links the classicism of the *appellations* with the tastes of the new world,” says Jean Berteau, head of the Compagnie Rhodanienne, the wine's maker. Marks & Spencer, a British retailer, has launched “Tandoori Nights”, a *vin de pays* that it says “goes well with Indian curry.” But such gimmicks might not work in France. Few non-French wines are on sale, and consumers are not used to new-world marketing.

Instead the French are debating how to revive consumption. The government is loosening controls on wine advertising. But could falling consumption and poor marketing be linked? Bruno Kessler, head of Grand Chais, which makes branded new-world-style French wine, says, “The French approach is to say ‘my product is best' and keep saying it until the consumer understands. But we have to sell something consumers want to buy. Our real enemy is Coca-Cola.”

Charlemagne

Harrying the Nazis

Jan 20th 2005
From The Economist print edition

Why banning Nazi symbols across Europe would be a bad idea

Get article background

PRINCE CHARLES, heir to the British throne, spends a lot of time on earnest attempts to influence public policy. But he has never, so far, had the dramatic impact of his younger son, Prince Harry, whose decision to wear a Nazi uniform to a fancy-dress party in Britain may be about to trigger Europe-wide legislation. Franco Frattini, the European Union's commissioner for justice and home affairs, declared to Italian newspapers this week that “EU action is urgent and has to forbid very clearly Nazi symbols in the European Union.”

Indeed, Mr Frattini plans to put the idea of such a ban on the agenda of the next meeting of European justice ministers, on January 27th. Since that is also the day on which 40 world leaders will be gathered at Auschwitz to commemorate the liberation of the Nazi concentration camp in 1945, the chances of the EU seizing the opportunity to make a grand gesture must be high. But legislation passed at moments of high emotion is rarely well considered—and an EU-wide ban on Nazi symbols would be no exception to this rule.

The obvious problem with any such laws is where to draw the line. Do you just ban symbols, or do you also ban such offences as “Holocaust denial”? And although almost everybody may agree that Nazism was a unique evil, a ban on Nazi symbols would undoubtedly lead to a call for other similar bans. Why not a ban on the Soviet hammer-and-sickle? Or one on fascist insignia in Spain or Italy?

The issue is particularly perplexing in Mr Frattini's native Italy. Brussels-based journalists who visited the country during the Italian presidency of the EU in 2003 were startled to find Mussolini's photograph still affixed to the wall of the Palazzo Chigi, the official residence of the Italian prime minister, alongside photos of Italy's innumerable other prime ministers—and with no suggestion that there was anything remarkable about it. An official who was asked why a fascist dictator was still accorded this honour shrugged that “he's part of our history.”

He is a part of Italy's present too. The deputy prime minister (and now foreign minister) whom the journalists were ushered in to see was none other than Gianfranco Fini, who in 1994 described Mussolini as “the greatest statesman of the 20th century”. Mr Fini has now renounced this claim. Yet rows about the fascist era keep breaking out in Italy. The latest was provoked this month during a football match in Rome. After scoring a spectacular goal, Paolo Di Canio of Lazio ran over to his team's notoriously right-wing supporters and gave them a fascist salute. In theory, this is illegal in Italy. But a degree of confusion is understandable. Just outside the Olympic stadium in which the game was being played stands a large obelisk that is emblazoned with the words “Mussolini, Duce”.

Similar controversies rage elsewhere in western Europe. In Spain, the Valley of the Fallen, a fascist mausoleum built by political prisoners, remains one of the country's biggest tourist attractions. Franco loyalists still rally there on the anniversary of the caudillo's death. The Socialist government of José Luis Rodríguez Zapatero (whose grandfather was killed by fascists) says that it wants to cleanse public buildings of Francoist symbols. A campaign is under way to build a memorial to the victims of fascism at the Valley of the Fallen, or a museum modelled on those at Nazi concentration camps. But the government will move cautiously. The wounds of Spain's past are still sore.

The question of free speech and the past is also a live one in France. This month, Jean-Marie Le Pen, leader of the far-right National Front and one of the two run-off candidates for the French presidency in 2002, caused outrage when he suggested that the Nazi occupation of France had "not been particularly inhumane". Mr Le Pen's critics rushed to remind him of the deportation and murder of the French Jews, and talked of such massacres as that at Oradour-sur-Glane. French prosecutors are looking into whether Mr Le Pen might be tried for the crime (in French law) of "denial of crimes against humanity".

Back in Blighty

Now even Britain, which had long thought of itself as happily immune to such controversies, has been dragged into the debate by Prince Harry. German members of the European Parliament have led calls for the EU to adopt a law similar to Germany's own statute banning Nazi symbols. Some Germans seem to relish the unusual opportunity to take the moral high ground over Nazism. Matthias Matussek, the London correspondent for *Der Spiegel* (and brother of Germany's ambassador to Britain), informed his readers that, while the British were still unhealthily obsessed by the war, they had been "focusing too much on their own triumph and too little on the history of the victims. It now appears that the British have a greater problem with the past than the Germans." You can almost taste the wishful thinking.

The argument of those Germans who want an EU-wide ban on Nazi symbols is, as Silvana Koch-Merin, a vice-president of the Liberal Group in the European Parliament, expresses it, that "all of Europe suffered because of the crimes of the Nazis, therefore it would be logical for Nazi symbols to be banned all over Europe." But such "logic" risks redefining Nazism as a European tragedy, rather than a tragedy visited on Europe by Germans. Even today, that does not quite ring true. While it was grossly insensitive for Prince Harry to wear a Nazi uniform, a similar action by a prominent young German would have been a lot more sinister and disturbing.

That is why a ban on Nazi insignia may make sense in Germany, but be an excessive restriction on free speech in Britain and most other countries. Even in the "united Europe" of today, Nazi symbols and the memories of fascism and communism resonate differently in different countries. Each country deals with them as it sees fit, which is as it should be.

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Abuse allegations

Britain's Abu Ghraib?

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Reuters

The differences are as striking as the similarities

A PICTURE of an Iraqi prisoner trussed up and suspended from a British army fork-lift truck; another of a prisoner lying bound and blindfolded in a foetal position on the ground while a British soldier, wielding a stick, stands on top of him; a third of two naked prisoners apparently forced to simulate anal sex while giving a thumbs-up sign—in all, 22 photographs, depicting what the prosecution described as “shocking and appalling” abuse, were presented to a jury of seven officers at the court-martial of three members of the 1st Battalion The Royal Regiment of Fusiliers in Osnabrück, Germany, this week.

Together with a fourth fusilier from the same unit, whose court-martial is subject to reporting restrictions, they are the first British soldiers to go on trial in connection with the alleged mistreatment of Iraqis. Indeed, according to the Ministry of Defence, this is the first court-martial of British soldiers for the alleged abuse of prisoners anywhere “for a very long time—certainly since the end of the cold war”. The case is already being dubbed “Britain's Abu Ghraib”. But there are important differences as well as some similarities.

For a start, all the incidents in the present British case allegedly took place on a single day in May 2003 at a British-run aid camp near Basra. The victims were not long-term detainees as in Abu Ghraib, but Iraqi civilians who had been caught stealing food supplies from the camp, aptly named Breadbasket. Angered by the amount of looting going on, the camp's commanding officer, Major Daniel Taylor, devised a plan, code-named Ali Baba, aimed at rounding up the thieves.

The court was told how the fusiliers were sent out in groups of four, armed with camouflage poles and one SA80 assault rifle, to capture the Iraqis and bring them back to the camp with an

ambiguous order to “work them hard” to deter further looting. Some in the press have interpreted this as meaning that the soldiers should beat them up; but even if the order meant simply what it said, it would have been in contravention of the Geneva Conventions, which forbid the use of prisoners as forced labour. But what the four defendants allegedly did went “way outside of that order”, according to the army prosecutor, Lieutenant-Colonel Nick Clapham.

The four soldiers were assigned three of the looters and took them to their “hide” at the far end of the camp, supposedly to get them to undertake “menial tasks”. But while there, the still unidentified Iraqis were physically abused and forced to simulate sex acts while being photographed, the prosecution said. The abuse came to light only after one of the soldiers took the film to be developed at a shop near his home in Staffordshire. The appalled staff alerted the police.

Three of the soldiers have pleaded not guilty to all but one of a total of ten charges against them. Lance Corporal Darren Larkin has pleaded guilty to a single charge of assault, punishable by up to six months in jail. Each of the other charges carries a maximum two-year sentence, which could be made to run consecutively, plus a discharge “with disgrace”. The trial is expected to last several weeks. The fourth fusilier has already been convicted and sentenced on similar charges in a separate court-martial last week.

Alleged abuse of Iraqis by American soldiers is worse than anything alleged in this case, took place over a much longer period of time and was probably far more widespread—though this is still in dispute (see article). More than 100 American soldiers have already been disciplined or convicted in connection with the abuse and deaths of prisoners and civilians in Afghanistan, Iraq and Guantánamo Bay. The man said to be the ringleader of the Abu Ghraib abuse was sentenced this week to ten years in jail. Many cases are still pending, including 13 suspected homicides.

In Britain, 160 cases involving anything from murder to road accidents have been investigated, with 48 of the inquiries still under way. But, so far, these investigations have resulted in only four trials, including the current one. Another ten cases are being considered for possible prosecution, not all of which involve alleged abuse. This, as General Sir Mike Jackson, the head of Britain's armed forces, pointed out this week, is “a very small number” in comparison with the 65,000 British troops who have served in Iraq.

It is the graphic nature of the Abu Ghraib photographs, more than the alleged abuse, that has caused such harm to America's image around the world. Tony Blair must be praying that these horrible British photos do not do similar damage to Britain's image.

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Muslim schools

In search of tolerance

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Worries about Muslim schools cause ructions

MUSLIM schools, according to the country's chief education inspector, David Bell, are threatening the cohesiveness of British society. “I worry that many young people are being educated in faith-based schools, with little appreciation of their wider responsibilities and obligations to British society,” he said in a speech this week that was swiftly denounced by Muslim leaders.

The handful of state-funded Muslim schools are not the worry: results tables show them doing well. What bothers Mr Bell is private religious schools. These are indeed growing fast: there were 170 in England in September 2003, and there are 276 now, of which 118 are Muslim (closely followed by evangelical Christian ones). They do not have to stick to the national curriculum, although they must meet broad educational and other standards, which are enforced by state inspection.

That regime has been toughened since 2003. Although most private religious schools have managed to pass, 88 have yet to meet new requirements on breadth of curriculum. Of these, 50 are Muslim. And of those, 18 have been told to improve particularly their teaching of citizenship—such as tolerance of “non-traditional lifestyles” (code for homosexuals)—or risk being closed down. Some are small seminaries, which concentrate on memorising the Koran and sermonising.

Idris Mears, of the Association of Muslim Schools, argues that shortcomings are due to shortage of cash, not bigotry. “We want as much professionalism as possible”, he argues. Like other Muslim leaders, Mr Mears wants more state-financed Muslim schools, along the lines of existing Anglican and Roman Catholic ones.

One aspect of Mr Bell's criticism is certainly puzzling. The vast majority of independent religious schools have passed inspections. So they can hardly be accused of preaching intolerance. Those at issue are only 18 Muslim schools and another 17 Christian ones. But they are mostly small, so can hardly be charged with leading the “many” children astray that Mr Bell claims. That suggests that either the inspections so far have been too gentle, or that his criticism now is too sweeping.

Mr Bell declined to expand on this point, or to provide concrete examples to back up his criticisms. But he received strong support from Trevor Phillips, who runs the Commission for Racial Equality, a government-funded watchdog. He termed Mr Bell's remarks “wise and sensible”. Even if the number of troubling schools is still small, he argued, it is better to speak out now than let them increase.

The real argument, though, is about principle, not numbers. On the one hand stand some parents, Muslim and Christian alike, who think, among other things, that evolution is a fallacy and that homosexuality is a wicked perversion. They want schools for their children that uphold these beliefs, and feel they are facing a “liberal inquisition” in Mr Mears's words, or an “imposed secular

viewpoint", according to Sylvia Baker of the Christian Schools' Trust. On the other hand stands an educational establishment which thought that diversity and tolerance were synonymous, and finds they're not.

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Politics and the media

The people have spoken

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Reality, television and the British media

ONE of the many criticisms levelled at the British media is that it exists in a bubble, cut off from the everyday concerns of its own listeners and readers. After its recent attempts to engage its audience in public affairs, it probably wants to stay there.

Last week saw the final of “Vote for Me”, a reality-TV programme in which viewers were invited to choose an independent parliamentary candidate from a selection of political novices. The eventual winner (who saw off competition from a Druid and a porn star, among others) was Rodney Hylton-Potts, a 59-year-old lawyer and ex-convict.

Mr Hylton-Potts's platform included the forcible castration of paedophiles, the repeal of the Human Rights Act, an end to immigration (except for the very rich) and, bizarrely, the legalisation of most drugs. Flushed with success, he announced his intention to stand against Michael Howard, the Conservative leader, in the general election.

The media reacted with horror. The tabloid *Sun*—which bills itself as the voice of Britain's no-nonsense working classes—accused Mr Hylton-Potts of being a racist. The show's presenter compared him to Hitler and Mussolini. ITV, the channel that broadcast the programme, refused even to reveal his margin of victory. Even the *Mail on Sunday* carried a disapproving article.

Nor was the result a one-off. Last year the BBC's “Today” programme—supposedly the breakfast entertainment of choice for Britain's urban sophisticates—asked its listeners to choose a law that they'd like to see the government pass. Stephen Pound, a Labour MP, volunteered to put their choice to Parliament. They plumped for the decidedly illiberal idea of allowing homeowners to defend their property “by any means”—up to and including shooting intruders. On hearing the result, Mr Pound quoted Mark Twain: “The people have spoken,” he said. “The bastards.”

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Theatreland economics

How the West got lost

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Subsidised theatres are squeezing playhouses in London

LONDON'S theatreland may suffer from cramped seating and be served by lousy theatre bars, but it still excels at one thing: spreading rumours. So the news that Andrew Lloyd Webber, its most commercially successful son, has been approached by a bidder for all of his Really Useful Group, and by bidders for a handful of the theatres it co-owns, has created a flurry of excitement. Since the theatres that, according to backstage whispers, are the focus of serious interest are all smallish playhouses rather than big theatres that tend to house musicals, it also prompts a question: is it now impossible to make money by putting on plays in the West End?

“The West End has been written off before,” says Peter Longman, director of The Theatres Trust. Competition is always intense: London's theatregoers are so capricious that of ten new shows, seven will close early, two will break even and one makes money. Nevertheless, this time the prognosis doesn't look good. Six productions closed within a month of opening last summer, an unusually speedy death. And there is also evidence that two more fundamental shifts are luring away audiences from London's commercial theatres.

First, tastes seem to be changing. Though audiences in the West End are not falling, that's mostly thanks to the allure of musicals, not plays. The Society of London Theatre's members ran at 65% capacity in 2003, the most recent year for which figures are available. But this disguises a big difference between musicals and plays. For the musicals, attendance averages 68% of capacity; for plays, attendance is somewhat lower, at 56%. So if a show doesn't contain some warbling and plenty of sequins, half the red velvet chairs are likely to stay folded up. And in a business in which the costs are all fixed, a few punters more or less can make the difference.

Second, London's subsidised theatres are doing unusually well. Across the river at the National Theatre, which receives around £14m ($26m) in public money every year, attendance has been running at over 90% of capacity for the past 20 months. That's partly thanks to a sponsorship deal with Travelex, a foreign-exchange company, which allowed the National to sell 170,000 tickets for £10 over the quiet summer months; and partly to aggressive programming. Hits like “Jerry Springer—the Opera”, “His Dark Materials” and “The History Boys” have provided a string of sell-outs. By the time plays transfer from the subsidised sector to the commercial West End, they have often lost both their initial buzz and their lead actors, already booked to star in something else.

That leaves the playhouses hoping to recover some glitz by casting well-known American actors in movie adaptations. So far this has worked, but the formula is likely to become tired quite soon, leaving producers scratching their heads again.

With subsidised theatre increasingly hard to distinguish from commercial theatre, the West End thinks it should be subsidised too. The Theatres Trust has a plan that would involve spending

£250m (half provided by the taxpayer) over 15 years on sprucing up the West End's playhouses. Wisely, the government has not, so far, accepted the scheme.

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Heritage

Should auld acquaintance be forgot

Jan 20th 2005 | ALLOWAY, AYRSHIRE
From The Economist print edition

Poor Robbie Burns, Scotland's neglected poet

“O SCOTIA! My dear, my native soil! For whom my warmest wish to Heaven is sent!” wrote Robert Burns of his homeland. And around January 25th, his birth anniversary, hundreds of thousands of Scots at home and abroad will return the compliment by scoffing haggis, swilling whisky and reciting poetry. Which makes it odd that the landmarks associated with Scotland's national poet are so neglected.

For a dialect poet, Burns has a wide appeal. Gerry Carruthers of Glasgow University points out that he was unusual in being appreciated by both sides in the cold war: Russians regarded him as a socialist icon, while Americans liked his republicanism.

The poet's birthplace, a cottage in Alloway, Ayr, was where the carousing tradition started, when a group of friends got together for a haggis supper shortly after the bard's death. But pilgrims will find it distinctly shabby. Original manuscripts in out-of-date displays are alternately baked by heating from below and bleached by sunlight from above. The Burns family Bible had to be restored after rainwater leaked in. Down the road at the Tam O'Shanter Experience, a modern visitor centre, the main attraction, a film which tells Burns's epic witches tale, broke down months ago and is in no apparent danger of being fixed.

Elsewhere in Ayrshire, the Burns Monument in Kilmarnock was burned by vandals last year and a three-storey tower in Mauchline billing itself as the Burns National Monument is chained shut. And there are lots of other places—farms where he lived, locations where he composed—which are either falling down or being ignored. “It is just total neglect,” says Laurie Black, director of the Burns Heritage Park. On January 19th, the Scottish Executive announced it would give the park £50,000 to “help with short-term costs”.

Scots are evidently not interested enough to keep Burns's memory going by paying for entrance to these shrines, so the Scottish Executive has asked the National Trust for Scotland to do something. The trust says taxpayers will have to foot the bill. That looks like being about £10m ($18.7m).

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Criminal justice

Jail break

Jan 20th 2005
From The Economist print edition

Bang 'em up justice is beginning to go out of style

THIS is the time of year when prisons are quietest. Hundreds of convicts have been let out early in order to reduce pressure over the Christmas and New Year holidays, and the courts have not yet delivered a fresh batch. Supply is also interrupted by cold weather, which makes loitering in dark alleys seem less appealing. Normally, prison governors would expect the number of clients to rise along with spring temperatures, quickly reaching heights well above the previous peak. But they hope this year will be different.

Britain's prison population has held steady and even declined slightly over the past nine months. It peaked at 75,485—just 44 short of the number that could realistically be crammed in and almost 50% more than the population in the early 1990s, when crime rates were at their height. The increase was driven in part by longer sentences for serious crimes, but mostly by more frequent use of custody for petty offenders. “Ten years ago, there were 129 shoplifters in prison. We've got 1,400 now,” says Martin Narey, head of the prison and probation service.

Nobody in the government or the judicial system sees that as desirable, but until recently few good alternatives to prison were available. Fines went unpaid; probation conditions were flouted and community sentences laughed off—or so those doing the sentencing believed. But the arsenal of sentences that don't involve bars is now larger and weightier.

Crooks can already be sentenced to drug treatment programmes and intensive supervision. The rapid growth of tagging means that 10,000 are electronically monitored. But the big change comes in April, when judges and magistrates will be able to pick and choose, Chinese restaurant-style, from an expanded menu of 12 non-custodial sentences. They will be able to tell delinquents where to live, what work they should do (and not do) and when they ought to be at home, perhaps imposing a suspended sentence at the same time just to concentrate the mind.

“The bigger the menu, the better,” says Janet Males, chairman of the Magistrates' Association sentencing committee. She believes the ability to micro-manage offenders will be especially handy when it comes to those who are knocking on the prison gate: once they have stacked up a few sentences their liberties will be curtailable almost as much as if they were behind bars. She also welcomes proposals for stiffer fines that were introduced to Parliament last week.

More choice of punishments ought to mean less prison. But the change that would make it into an option of last resort may be a few years off. Restorative justice, which tends to mean encouraging offenders to apologise and giving victims a say in how they are sentenced, has been introduced in the juvenile courts and is currently being tested on hardened offenders. So far, victims approve. It is less clear that crooks are more likely to go straight after shedding a few tears. A rigorous Australian study found that violent criminals were 38% less likely to reoffend and that burglars carried on at the usual rate, while an ongoing experiment in Northumbria suggests the reverse.

But Lady Scotland, a Home Office minister, is keen to find space on the menu for such schemes.

Oddly, involving victims in sentencing tends to mean less incarceration. That is partly because they demand specific rather than abstract restitution—money to fix furniture rather than a spell in prison for burglary. Another reason, says John Braithwaite, an expert on restorative justice at the Australian National University, is changed perceptions. “Victims of crime have an image of the criminal as a powerful, evil man. Then they turn up to the conference and find a pimply adolescent.”

The potential for softening hearts is appealing, since it was public clamour for tougher sentences that helped push up custody rates in the 1990s. But even if prisons are increasingly reserved for the most serious offenders, as the government and the judges intend, there is still a problem with banging up the dregs of society. It is a good way of protecting the public, but only until the gates open: 73% of young men discharged from prison in the first half of 2001 were re-convicted within two years. Reversing that sorry pattern is still an urgent and necessary task.

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Tax and spend

Phoney war

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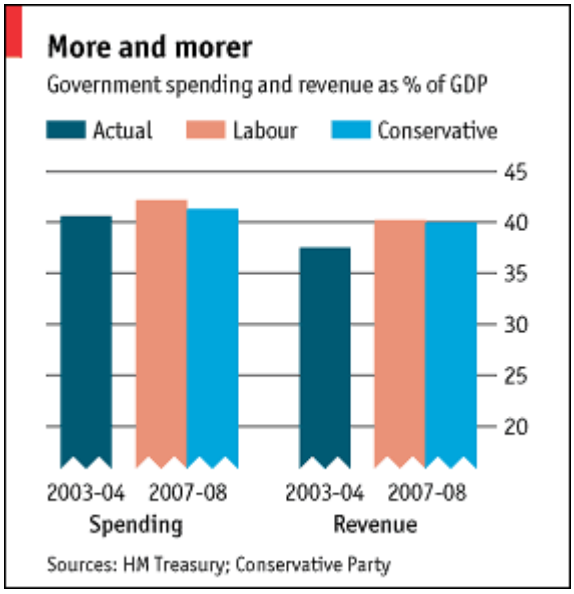
The Conservatives' pledges are strikingly similar to Labour's



AT FIRST sight, the numbers are breathtakingly large and eyewateringly tight. Within three years of taking office, the Conservative Party plans to reduce annual public spending by £35 billion, worth 2.5% of GDP. The Tories will send 235,000 bureaucrats packing and abolish 168 public-sector bodies.

On cue, in the first skirmish of the election expected in May, the Labour Party foamed about “huge cuts”. Alistair Darling, a Labour minister, said they would be “more extreme and more damaging than anything ever attempted by Mrs Thatcher”. But a closer look at the figures reveals that Labour's rhetoric was as phoney as most of the Conservatives' supposed cuts.

The Labour government has already set out its spending stall for the next three years. In 2007-08, it intends to spend £579 billion. The Conservatives announced this week that they will be spending £567 billion. So their “huge cuts” amount not to £35 billion but to £12 billion.

How did that £35-billion elephant morph into a £12-billion mouse? The answer is that £23 billion of the supposed cuts turn out not to be cuts at all. That's because these savings will be recycled into public spending.

This leaves the Conservatives offering remarkable pledges. They're remarkable not for their harsh contrast with but for their close resemblance to the Labour government's plans. Under Labour,

public spending in 2007-08 will amount to 42.2% of GDP (see chart). Under the Conservatives, it will be 41.3%.

On taxation, the difference is even smaller. The Conservatives will use £8 billion of the £12 billion spending cut to deal with the budget deficit. This means that they are promising tax cuts of just £4 billion. In 2007-08, Labour expects to rake in tax revenues worth 40.2% of GDP. Under the Conservatives, the tax take would be 39.9%. Both parties will thus preside over a hefty increase in the tax burden, from 37.5% of GDP in 2003-04.

The similarities don't stop there. Both parties say that they can get the public sector to do more with the money it's getting, through “efficiency savings”. Labour says it can rustle up £21.5 billion of annual savings by 2007-08. The Conservatives trump this with £26 billion. The trouble with both claims is that they are easy to make but hard to translate into practice and harder still to prove one way or another.

The more credible part of the Conservative spending cuts consists of those where they are planning for government to do less—for example, by abolishing “New Deal” schemes for the unemployed. However, these cuts add up to only £9 billion. The scope for bigger reductions was limited by the Conservatives' decision a year ago to match Labour plans on health and education, together with an expensive commitment to restore the earnings link to the basic state pension.

The Conservatives argue that their plans mark a change in direction and that the difference between them and Labour will increase further after 2007-08. But what will matter in the election campaign is their detailed proposals for the next three years. On these, voters will be hard-pressed to spot the difference between them and Labour.

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Unpredictable Lib Dems

Their hour come round at last?

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The Liberal Democrats start their campaign riding high in the polls

WHILE Labour and the Conservatives began their election campaigns by squabbling about whether the Tories' timid tax proposals would mean the end of civilisation, the Liberal Democrats quietly got going too. Largely ignored by the bigger parties, Charles Kennedy, the Lib Dem leader, cheekily declared that his lot constituted “the real opposition”. His most distinctive offers are opposition to the Iraq war and support for a local income tax. The rest are a mix of Tory rhetoric (“freeing doctors and nurses from Whitehall meddling”) and Labour programmes (“more early years support and nursery school places”). This poses a problem for Labour and the Conservatives: should they go on the attack and risk giving the Lib Dems free publicity, or should they just ignore them?

So far, the big two are repeating their tactic of chuckling whenever the Lib Dems are mentioned, then rubbishing them with the air of a champion weightlifter asked to stand next to someone who stacks supermarket shelves for a living. This has worked in the past. But if the Lib Dems make further gains in the polls, they may have to try something else.

That's because the Lib Dems are well ahead of where they were at this stage in 2001, the last general election year. While the official, Conservative, opposition is down about one percentage point on where it was at the beginning of 2001, the Lib Dems are eight points up. The party's profile is such that Mr Kennedy was invited to appear on “EastEnders” over Christmas. In previous years the producers of a soap opera might not have bothered, since few viewers would have recognised him. Labour, meanwhile, is stuck at about 38%, 11 points down on where it was in 2001. “We're the only party going in the right direction in the polls,” grins Paul Rainger, the Lib Dems' campaign director.

If their poll numbers hold up, or even increase, that will provide headaches for both parties, but particularly for Labour. While the Lib Dems could be relied on in previous elections to take votes from the Conservatives, thus taking a little pressure off Labour in Labour/Tory marginals, this time they are more likely to steal votes from Labour too. Left-leaning middle class voters are particularly likely to find the Lib Dem opposition to the Iraq war attractive, especially as their daily papers—the *Guardian* and the *Independent*—are thinking about defecting too.

Success brings its own problems, though. The first is one of resources. The Lib Dems have about £3m to spend—about the same as they had in 2001—but it will be spread more thinly.

Second, there is plenty for the other parties to attack, should they choose to do so. Labour MPs in traditional Labour areas could wave around copies of “The Orange Book: Reclaiming Liberalism”, which contains a series of scary, market-friendly proposals for the public services written by prominent Lib Dems. The Tories could remind voters that they might lose out under the Lib Dem proposal for a local income tax. But in previous campaigns, the Lib Dems have gone up by around

five points as the election nears. If that happens this time, it could get really interesting.

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Bagehot

The Tories' struggle to be heard

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The Tories are too frightened of Tony Blair to say anything distinctive

CREDIT where credit is due. The taxation and spending plans which Oliver Letwin, the Tory shadow chancellor, revealed this week are the most rigorous that an opposition party has ever produced. They are also almost painfully responsible in their insistence on allocating more money to reducing future borrowing than to relieving hard-pressed taxpayers. And there is good reason to suppose that if they were implemented, the medium-term prospects for the economy would be slightly better than if the government sticks to its current course. Unfortunately, none of this is likely to make a blind bit of difference to the outcome of the general election expected in May.

Mr Letwin and a large team of bean-counters working under David James, a flamboyant City troubleshooter, have laboured for over a year, poring over every aspect of government line by line. The result—£35 billion ($66 billion) worth of savings extracted from a mixture of efficiency and cutting down government activity—is that the Tories now believe they can credibly promise to redirect £23 billion into “priority areas”, while lowering government borrowing by £8 billion and cutting taxes by £4 billion in their first post-election budget.

This was by some way the most important announcement the Tories have made since losing office in 1997. But the response has been a sceptical yawn.

Part of the Tories' problem is that whatever they say, hardly anybody listens. The failure to improve their opinion-poll ratings saps the morale of MPs and activists, but its most insidious effect is to rob the party of political presence. Because the Tories do not look remotely close to winning, even people who are more than normally interested in politics have stopped bothering to find out what Tory policies are. Mr Letwin's presentation came a day after a poll carried out by Populus for the *News of the World* in 202 marginal constituencies suggested that the Conservatives were heading for a defeat as big as that in 2001. The poll's methodology left something to be desired, but the headlines it generated made it harder for Mr Letwin to persuade people that he had a serious and coherent plan for governing the country.

Another reason the Tories are struggling to make themselves heard is that they have little distinctive to say. Mr Letwin argues that his party's approach to reforming public services is far more radical than Labour's. Conservative policies would create real markets in health and education, while the government is working slowly towards a form of centrally managed, partial competition between approved providers. Mr Letwin also says that there is a big difference between Labour and the Tories over the direction of taxation and spending, which would have a dramatic effect over time on economic efficiency.

He may be right, but to most people, the differences must appear tiny. Ministers talk constantly about extending choice, adapting services to individual needs and money following patients and pupils. Some may deduce that the Tories want to go a bit further and a bit faster, but that's as

much as anybody could read into it. Nor will many of those who bother to think about such things believe that tax cuts amounting to less than half a percentage point of annual receipts in two years' time are likely to make the difference between happiness and misery.

Some of the blame for this lies with the Tories' own lack of self-confidence. Just as Labour in the mid-1990s had to accept that it could not be elected unless it promised to stick to Conservative monetary and fiscal policies, so the Tories now feel forced to commit themselves to spending no less than Labour on health and education, regardless of whether it is the right amount or not. The difference is that whereas the former did make a real difference to Britain's long-run economic performance, the effects of Labour's spending splurge are still unclear.

Why the man you've never heard of matters

More than anything, however, the Tories' plight is a direct consequence of Tony Blair's particular genius. The Liberal Democrats may threaten Labour's left flank, but there is little sign of any movement from Labour to the Tories. If anything, it is the other way around. The other event this week was the defection to Labour of the Conservative MP for Wantage, Robert Jackson.

Mr Jackson, who is 58, had already announced his retirement from Parliament at the next election. Apart from a spell as minister for higher education under Margaret Thatcher, he made less mark on Westminster politics than his talent (he is a former fellow of All Souls, Oxford University's college for the cleverest of all) warranted. But his decision to quit the party he has supported all his adult life nevertheless matters.

Having decided that he was going to vote Labour in May, Mr Jackson concluded that he had a duty not to go quietly. As a pro-European, though not a fanatical one, Mr Jackson has found life increasingly difficult in recent years. But there were other reasons at least as important for Mr Jackson's departure. He admired Mr Blair's courage over Iraq, comparing it favourably with Michael Howard's lawyerly equivocations when the going became difficult. Most of all, however, he thinks Mr Blair deserves support for his determination to improve public services. In particular, Mr Jackson was ashamed of his party's opposition to Mr Blair's plan to make university students pay more for their degrees, which he saw as a cowardly and opportunistic betrayal of the economic principles Conservatives should espouse.

Mr Jackson, it is safe to say, has fallen in love with Mr Blair, not with Labour. Therein lies a little comfort for the Tories. Mr Blair, despite everything, still appeals to many people with Tory tendencies, and he has promised to leave the job before the election after next. Mr Letwin, whose seat is vulnerable, may not be in a position to enjoy it, but the Tories can at least start to look forward to a time when Mr Blair is no longer around.

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The good company

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The movement for corporate social responsibility has won the battle of ideas. That is a pity, argues Clive Crook (interviewed here)

OVER the past ten years or so, corporate social responsibility (CSR) has blossomed as an idea, if not as a coherent practical programme. CSR commands the attention of executives everywhere—if their public statements are to be believed—and especially that of the managers of multinational companies headquartered in Europe or the United States. Today corporate social responsibility, if it is nothing else, is the tribute that capitalism everywhere pays to virtue.

It would be a challenge to find a recent annual report of any big international company that justifies the firm's existence merely in terms of profit, rather than “service to the community”. Such reports often talk proudly of efforts to improve society and safeguard the environment—by restricting emissions of greenhouse gases from the staff kitchen, say, or recycling office stationery—before turning hesitantly to less important matters, such as profits. Big firms nowadays are called upon to be good corporate citizens, and they all want to show that they are.

On the face of it, this marks a significant victory in the battle of ideas. The winners are the charities, non-government organisations and other elements of what is called civil society that pushed for CSR in the first place. These well-intentioned groups certainly did not invent the idea of good corporate citizenship, which goes back a long way. But they dressed the notion in its new CSR garb and moved it much higher up the corporate agenda.

In public-relations terms, their victory is total. In fact, their opponents never turned up. Unopposed, the CSR movement has distilled a widespread suspicion of capitalism into a set of demands for action. As its champions would say, they have held companies to account, by embarrassing the ones that especially offend against the principles of CSR, and by mobilising

public sentiment and an almost universally sympathetic press against them. Intellectually, at least, the corporate world has surrendered and gone over to the other side.

The signs of the victory are not just in the speeches of top executives or the diligent reporting of CSR efforts in their published accounts. Corporate social responsibility is now an industry in its own right, and a flourishing profession as well. Consultancies have sprung up to advise companies on how to do CSR, and how to let it be known that they are doing it. The big auditing and general-practice consulting firms offer clients CSR advice (while conspicuously striving to be exemplary corporate citizens themselves).

Most multinationals now have a senior executive, often with a staff at his disposal, explicitly charged with developing and co-ordinating the CSR function. In some cases, these executives have been recruited from NGOs. There are executive-education programmes in CSR, business-school chairs in CSR, CSR professional organisations, CSR websites, CSR newsletters and much, much more.

But what does it all amount to, really? The winners, oddly enough, are disappointed. They are starting to suspect that they have been conned. Civil-society advocates of CSR increasingly accuse firms of merely paying lip-service to the idea of good corporate citizenship. Firms are still mainly interested in making money, they note disapprovingly, whatever the CEO may say in the annual report. When commercial interests and broader social welfare collide, profit comes first. Judge firms and their CSR efforts by what the companies do, charities such as Christian Aid (a CSR pioneer) now insist, not by what they say—and prepare to be unimpressed.

By all means, judge companies by their actions. And, applying that sound measure, CSR enthusiasts are bound to be disappointed. The 2004 *Giving List*, published by Britain's *Guardian* newspaper, showed that the charitable contributions of FTSE 100 companies (including gifts in kind, staff time devoted to charitable causes and related management costs) averaged just 0.97% of pre-tax profits. A few give more; many give almost nothing (though every one of them records some sort of charitable contribution). The total is not exactly startling. The figures for American corporate philanthropy are bigger, but the numbers are unlikely to impress many CSR advocates.

Still, you might say, CSR was always intended to be more about how companies conduct themselves in relation to “stakeholders” (such as workers, consumers, the broader society in which firms operate and, as is often argued, future generations) than about straightforward gifts to charity. Seen that way, donations, large or small, are not the main thing.

Setting gifts aside, then, what about the many other CSR initiatives and activities undertaken by big multinational companies? Many of these are expressly intended to help profits as well as do good. It is unclear whether this kind of CSR quite counts. Some regard it as “win-win”, and something to celebrate; others view it as a sham, the same old tainted profit motive masquerading as altruism. And, even to the most innocent observer, plenty of CSR policies smack of tokenism and political correctness more than of a genuine concern to “give back to the community”, as the *Giving List* puts it. Is CSR then mostly for show?

It is hazardous to generalise, because CSR takes many different forms and is driven by many different motives. But the short answer must be yes: for most companies, CSR does not go very deep. There are many interesting exceptions—companies that have modelled themselves in ways different from the norm; quite often, particular practices that work well enough in business terms to be genuinely embraced; charitable endeavours that happen to be doing real good, and on a meaningful scale. But for most conventionally organised public companies—which means almost

all of the big ones—CSR is little more than a cosmetic treatment. The human face that CSR applies to capitalism goes on each morning, gets increasingly smeared by day and washes off at night.

Under pressure, big multinationals ask their critics to judge them by CSR criteria, and then, as the critics charge, mostly fail to follow through. Their efforts may be enough to convince the public that what they see is pretty, and in many cases this may be all they are ever intended to achieve. But by and large CSR is at best a gloss on capitalism, not the deep systemic reform that its champions deem desirable.

Does this give cause for concern? On the whole, no, for a simple reason. Capitalism does not need the fundamental reform that many CSR advocates wish for. If CSR really were altering the bones behind the face of capitalism—sawing its jaws, removing its teeth and reducing its bite—that would be bad: not just for the owners of capital, who collect the company's profits, but, as this survey will argue, also for society at large. Better that CSR be undertaken as a cosmetic exercise than as serious surgery to fix what doesn't need fixing.

We are an equal-opportunity employer

But this is not the end of the matter. Particular CSR initiatives may do good, or harm, or make no difference one way or the other, but it is important to resist the success of the CSR idea—that is, the almost universal acceptance of its premises and main lines of argument. Otherwise bones may indeed begin to snap and CSR may encroach on corporate decision-making in ways that seriously reduce welfare.

Private enterprise requires a supporting infrastructure of laws and permissions, and more generally the consent of electorates, to pursue its business goals, whatever they may be. This is something that CSR advocates emphasise—they talk of a “licence to operate”—and they are quite right. But the informed consent of electorates, and an appropriately designed economic infrastructure, in turn require an understanding of how capitalism best works to serve the public good. The thinking behind CSR gives an account of this which is muddled and, in some important ways, downright false.

There is another danger too: namely, that CSR will distract attention from genuine problems of business ethics that do need to be addressed. These are not in short supply. To say that CSR reflects a mistaken analysis of how capitalism serves society is certainly not to say that managers can be left to do as they please, nor to say that the behaviour of firms is nobody's concern but their own. There is indeed such a thing as “business ethics”: managers need to be clear about that, and to comprehend what it implies for their actions.

Also, private enterprise serves the public good only if certain stringent conditions are met. As a result, getting the most out of capitalism requires public intervention of various kinds, and a lot of it: taxes, public spending, regulation in many different areas of business activity. It also requires corporate executives to be accountable—but to the right people and in the right way.

CSR cannot be a substitute for wise policies in these areas. In several little-noticed respects, it is already a hindrance to them. If left unchallenged, it could well become more so. To improve

capitalism, you first need to understand it. The thinking behind CSR does not meet that test.

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The union of concerned executives

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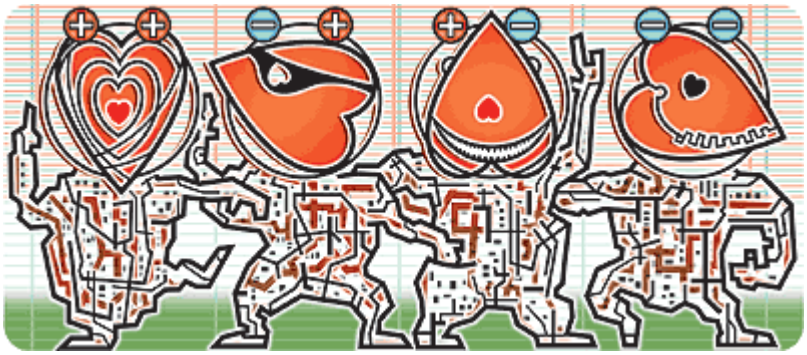

CSR as practised means many different things

ON THE face of it, questioning the efforts of companies to behave responsibly is an odd thing to do—unless you are accusing them of faking it, or of falling below some commonly agreed minimum standard. How could a company ever behave too responsibly? The very term “corporate social responsibility” endorses the actions to which it is applied. No doubt that is why companies fasten the label to a quite bewildering variety of supposedly enlightened, progressive or charitable corporate actions.

At one end of the broad span of CSR lie corporate policies that any well-run company ought to have in place anyway, policies that are called for on any sensible view of business ethics or good management practice. These include not lying to your employees, for instance, not paying bribes, and looking farther ahead than the next few weeks. At the other end of the range are the more ambitious and distinctive policies that differentiate between leaders and laggards in the CSR race—large expenditures of time and resources on charitable activities, for instance, or binding commitments to “ethical investment”, or spending on environmental protection beyond what regulators demand.

In other words, at the mild end of the range are practices that do not need any special CSR defence: they can perfectly well justify themselves in simpler ways, either as meeting standards of ordinary decency (of which more later), or as being necessary in any case if managers are to run a successful business. The issue here is not whether the activities themselves make sense, but whether they deserve to be dignified by the term “corporate social responsibility”—that is, whether they deserve the special praise which this label is intended to elicit.

At the strong end of the range, many activities do deserve a special label: they go well beyond the requirements of ordinary decency or business necessity, so the term CSR is serving a useful purpose. But can the same be said of the policies?

At first sight that looks like a churlish question. What could possibly be wrong with policies such as corporate charity or careful attention to the demands of environmental protection and sustainable development? Sometimes nothing, but it depends. Many individual acts of good corporate

citizenship do make sense in business terms, or as ways of advancing the public good, or both. But others do not.

Sometimes CSR policies are motivated by genuine concern for the intended beneficiaries, or by a conscientious belief that businesses must earn their “licence to operate”. There are some kindly CEOs out there, and some with a troubled conscience. But there can be other motives for CSR too. There are quite a few vain CEOs who enjoy the attention which CSR leadership brings them, and many others who, having climbed their way to the top, seem to find running a profitable company too small a test of their talents. Yet whatever the variations, one thing is constant: the weight given to specious arguments about what businesses must do to justify their existence and pay their way in society.

Putting those arguments about the duties of business to one side for the moment, setting motives aside as well and thinking only of results, one might ask two questions of any act of supposedly enlightened corporate citizenship. Does it improve the company's long-term profitability? And does it advance the broader public good?

Two tests

Successful managers usually do both at once, of course: merely by running a profitable company, they are likely to be advancing the public good as well. This argument will be taken up in more detail below. Some of the business practices that are often (perhaps misleadingly) labelled as CSR do fall into this category: they raise profits and advance society's well-being at the same time. Examples include establishing a reputation for dealing honestly with employees, suppliers and customers. This is the win-win kind of CSR—the sort that fails to impress much of civil society. Perhaps it would be better to call it simply “good management”.

Pick your permutation

Varieties of CSR

	Raises social welfare	Reduces social welfare
Raises profits	Good management	Pernicious CSR
Reduces profits	Borrowed virtue	Delusional CSR

Turning back to those two questions, however, note that there are three other possible answers as well. These are mapped out in the table. Some kinds of CSR reduce profits but raise social welfare (this is what civil society likes best: call it “borrowed virtue”, for reasons to be explained in a moment). There is also CSR that raises profits but reduces social welfare (“pernicious CSR”), and CSR that reduces both profits and welfare (a polite name for which might be “delusional CSR”). Consider some examples.

To begin with, win-win, or “good management”. There is a lot of it about. Many executives in the CSR movement deserve credit for testing and drawing attention to novel practices that can yield these good results. Their ideas may not be applicable in all or even most companies, but their success in particular cases is impressive.

One of the most enthusiastic and persuasive evangelists of win-win CSR is Marc Benioff, head of salesforce.com, a strikingly successful internet-based business-services company. In his book, “Compassionate Capitalism”, he explains, among other things, how good corporate citizenship can be used to attract, retain and motivate the best workers. His company encourages its staff to devote time, at the firm's expense, to charitable works. In complementary ways, it also provides flexibility in working hours and conditions. The character of the firm, as perceived by its employees and its customers alike, is closely associated with this commitment to good causes.

All this seems to pay. Mr Benioff argues that this draws the right kind of people to the firm—team players, joiners, volunteers, generous and committed colleagues with a sense of loyalty to the enterprise. This kind of corporate philanthropy, which marries good works with a clever way of sorting and motivating staff, is undoubtedly catching on.

When you press a CEO for details of a company's CSR policies, and for their business rationale, you find that every firm believes that its CSR actions fall in the win-win box. No chief executive wants to believe that the firm's various services to the community might reduce social welfare, and none seems willing to admit that his enlightened management practices might reduce profits—what would the shareholders make of that? But those other cells of the matrix are far from empty.

A clear instance of an action that reduces profits while (presumably) improving social welfare is a straightforward cash donation to charity. The donations featured in the *Giving List* fall into this category. Sums donated in this way have soared recently in response to the Asian tsunami. You might suppose that devoting profit to the public interest is CSR at its best, or at any rate its noblest. The enlightened company is surrendering some of its earnings to make the world a better place.

Philanthropy that isn't

As many CEOs point out, this is not to say that there are no business benefits. Some executives think of their charitable donations—especially gifts such as sponsoring high-profile sporting or artistic events—as a kind of advertising. Others may feel that their companies, or their industries (oil, tobacco, pharmaceuticals), have such a poor image with the public at large that generous charitable donations are needed to redress matters. But straightforward corporate philanthropy of this kind is not woven into the way the firm manages its personnel, so the commercial benefits are probably limited. Most cash donations out of profits probably do represent a net loss of profits (even if the loss is less than the gross outlay).

And what, you might ask, is wrong with that? What is wrong with a company giving part of its profits to help the victims of the disaster in Asia, for instance—a good cause if ever there was one?

Not so fast. Remember that corporate philanthropy is charity with other people's money—which is not philanthropy at all. When a company gives some of its profits away in a good cause, its managers are indulging their charitable instincts not at their own expense but at the expense of the firm's owners. That is a morally dubious transaction. When Robin Hood stole from the rich to give to the poor, he was still stealing. He might have been a good corporate citizen, but he was still a bandit—and less of one, arguably, than the vicariously charitable CEO, who is spending money taken not from strangers, but from people who have placed him in a position of trust to safeguard their property. That is why the box in the table containing “corporate philanthropy” is marked (perhaps too politely) “borrowed virtue”.

Note that the world's most spectacular philanthropists—think of the Bill & Melinda Gates Foundation, with its endowment of $27 billion—are not spending the profits of the companies they

are associated with but their own private wealth. That is the real thing, true philanthropy, and is nothing but admirable, especially if the givers are taking care to ensure the money is spent wisely, as the biggest private foundations now do.

Philanthropy financed out of the profits of publicly owned companies is a quite different thing, ethically speaking. Shareholders might expect to be allowed to spend their money on good causes of their own choosing, rather than seeing the managers whose salaries they pay take that uplifting duty upon themselves.

In the case of some public companies, it is true that there are mitigating circumstances. Some companies have a tradition of generosity with shareholders' money stretching many years back. Some, for instance, are formerly private or demutualised enterprises which, on going public, created charitable foundations and undertook to keep them financed. In these cases, the shareholders knew what they were getting into when they acquired stakes in the companies. Conceivably, these policies may even be among the reasons why some shareholders acquired their stakes in the first place. At any rate, such owners have little or no reason for complaint. As for the rest, the majority, it might have been polite to ask.

Still judging acts by their effects, as opposed to motives and underlying rationale, the most harmful kinds of CSR, however, are the “pernicious” and “delusional” sorts—that is, policies and practices that actually reduce social welfare. How can that happen? All too easily.

Most CSR, in fact, is probably delusional, meaning that it reduces both profits and social welfare, even if the cost under both headings is usually small. Almost all CSR has at least some cost, after all, even if it is no more than a modest increase in the firm's bureaucratic overhead. That cost subtracts from social welfare in its own right. So the kind of CSR that merely goes through the motions, delivering no new resources to worthy causes, giving the firm's workers or customers no good reason to think more highly of it (perhaps the opposite), involves a net loss of welfare.

Or consider the current enthusiasm for recycling. No doubt there are cases where it makes good business sense to recycle. These fall under the “good management” heading: they increase profits and (mainly for that reason) social welfare as well. But the point is that recycling is not free. Effort and other resources must be expended on it. Waste must be collected, transported and processed before it can re-enter the productive process. The costs can be substantial. If those private costs exceed the private savings, profits will suffer—and so, most likely, will social welfare.

Advocates of recycling would say this is short-sighted and wrong, because it ignores the need to conserve natural resources. Shortages of materials (such as newsprint), and of the natural resources needed to produce them (trees), are not reflected in the prices paid, they argue. So a private calculation of costs and benefits will not suffice. Profit, which is private benefit minus private cost, might rule out recycling, whereas a broader social calculation of costs and benefits would show a different balance. Since society has a collective interest in conserving resources, an interest not reflected in the market prices of commodities, recycling might very well reduce profit but at the same time increase welfare—and, as with corporate philanthropy, that is what CSR is about.

The trouble is, the notion that the market prices of commodities fail to reflect their scarcity is

wrong. In commodity markets, prices reflect scarcity just fine. The long-term global trend of falling commodity prices, despite growth in the world economy, is not due to the failure of markets to reflect diminishing supplies and impending shortages. Commodity markets are for the most part efficient and forward-looking. Commodity prices, measured over recent decades, have followed a downward trend because innovation has brought about ever-rising productivity in the use of those resources. In other words, supply has outstripped demand. Where, unusually, it has not, prices have indeed gone up—providing the signal that may make recycling in those cases commercially sensible.

By and large, the world is not running out of resources; where it is, prices reflect that fact. As a result, the ordinary pursuit of profits is an excellent guide to companies on whether to recycle. There is no need to anoint recycling as a kind of moral standard of responsible behaviour. And if doing so succeeds in deflecting companies from thinking hard about their costs, actual social harm results. Use of materials is an area where private and social benefits are typically well-aligned.

Consider, finally, the case of CSR that raises profits but lowers welfare—pernicious CSR. Recognising the existence of this category is especially important. Some economically literate bosses argue that if CSR raises profits then it must by the same token raise social welfare. So long as good corporate citizenship is good for the bottom line, they assume, you can rest assured that it must be win-win, and good for society as well. As a rule, this may be true. But there are some large exceptions.

Almost all CSR advocates are passionate about “sustainable development”. The idea is strongly endorsed by governments everywhere, by institutions such as the World Bank and the United Nations, and indeed by anybody at all with a desire to be thought well of. It has become an organising principle for the whole CSR movement. Emphasis is laid on environmental protection and on responsible behaviour towards workers and communities in the developing countries. In order to advance those eminently worthy goals, some companies have lately devised codes of practice, or have adopted codes written by other organisations. The danger lies in the detail of these policies.

To many advocates of CSR, and to virtually all of the NGOs that have given the CSR movement its intellectual drive, responsible behaviour towards workers in the developing countries goes far beyond giving them jobs at market wages and complying with local laws and regulations on matters such as health and safety. There is a debate in CSR circles about exactly how much higher than this the standard of responsible conduct should be. Some improvement on the minimal market standard is probably win-win in any case, because rich-country multinationals operating in developing countries typically want to hire from a big pool of keen applicants and to find better-than-average workers. Rich-country multinationals do in fact pay substantially higher wages and give substantially better benefits (such as access to health care) than the local norm. But how much of an improvement on this profit-seeking market standard does good corporate citizenship require?

Some CSR advocates have aligned themselves with those in the NGO movement who regard it as wrong—exploitative, or “unfair”—to hire workers in the developing countries on any terms that are significantly less generous than those granted to their rich-country workers. Companies under NGO scrutiny have been dissuaded from investing in manufacturing operations in developing countries such as India or Bangladesh, or have decided to end such operations, faced with charges that they are employing “sweatshop labour”. As good corporate citizens, they say with arms twisted behind their back, they no longer do that. Many development NGOs are pushing for labour standards that would mandate this kind of “best practice”, and want these standards written into future trade agreements.

The evidence clearly shows that policies of this kind (especially if they come to be required of all

companies as part of future trade pacts) are not in the interests of the workers they purport to help. Foreign direct investment in the third world is known to be one of the best spurs to economic development: just look at China. Even when the wages and other terms offered to local workers are much less generous than those offered to their western counterparts, they are typically much better than the local economy can provide, which is why jobs with foreign multinationals are nearly always in great demand in poor countries.

Attitudes that discourage such investment by making it less profitable, or by exposing companies that have made such investments to ridicule or censure, undoubtedly hold poor countries back. They also keep in poverty the very workers who would otherwise have got those jobs. To withdraw from such investments, as good corporate citizens are frequently enjoined to, may well be profitable for the companies concerned because staying put would impose heavy costs on their reputation. Capitulating to the ill-judged demands of the NGOs may be rational, profit-seeking behaviour on their part. But in this case, what is good for profits is bad for welfare.

This danger is compounded when CSR leaders campaign for the introduction of codes that impose such standards on all firms. This too may be fine for profits, which is why so many companies have begun to endorse this policy. It is a good idea for a business to hobble its competition if possible—which is what mandatory labour standards of the sort demanded of the WTO tend to do. How much better if grasping this commercial advantage can be disguised as acting the good corporate citizen. But hobbling the competition is bad for the public at large. Again, by depriving them of investment, such perverted virtue especially harms the economic prospects of developing countries.

All this underlines a broader worry. Companies do operate in a climate of opinion. To be successful and profitable, they must take account of how they are perceived. Big, successful businesses, which often find themselves in the public view, strive constantly to improve and protect their reputation. This is just as it should be: concern for the way they are judged by customers, suppliers and the world at large is a useful discipline. If it were absent, there would be no economic pressure on companies to behave decently. If nobody is paying attention, why worry about dealing honestly with people, or honouring a contract? This pressure of outsiders' perceptions is an indispensable force. Without it, companies in a private-enterprise system would be nasty, brutish and very short-lived.

Need to know

However, it is important that this pressure should be well-informed, or at least not utterly misguided. In particular, it needs to embody some basic economic understanding. Unwarranted, misguided or contradictory public demands on companies, especially if these demands emerge in due course as government mandates, can affect decisions in such a way as to detach profitable business conduct from the public good.

If the public decides to punish banks and other service companies that move their call-centres offshore by withholding its custom, the profit-seeking company will respond by ending the practice. Whether that response advances the broader social good then depends on the circumstances. If consumers reject outsourcing of this kind because it provides a lower quality of service, fine: that is the market working as it should. If the public rejects outsourcing because it falsely believes that workers in foreign call-centres are being exploited, that is not fine: that is the market, through popular misconception, getting it wrong.

In a way, this is to concede an important point to the advocates of CSR. Capitalism does function on top of, and one way or another is moulded by, prevailing popular opinion. As noted earlier, the conditions that must be satisfied if capitalism is to serve the public good are not trivial. A

comprehending and supportive climate of opinion must be added to the list. That is why the battle of ideas matters so much.

CSR comes in a wide variety of forms. Judged by results, it may be win-win, borrowed virtue, delusional or pernicious. Judged by motives, it may be done in good faith or bad faith, out of conviction, boredom or vanity, by genuinely well-intentioned business leaders or by cynical bosses looking to dupe their consumers. But invariably, and dangerously, it is underpinned by mixed-up economics.

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The world according to CSR

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From The Economist print edition

Good corporate citizens believe that capitalism is wicked but redeemable

OVER the past century or so, and especially in the past 50 years, the western industrial democracies have experienced what can only be described as an economic miracle. Living standards and the quality of life have risen at a pace, and to a level, that would have been impossible to imagine in earlier times.

This improvement in people's lives, staggering by any historical standard, is not measured solely in terms of material consumption—important though it is, for instance, to have enough to eat, to keep warm in winter, to be entertained and educated and to be able to travel. In addition to material gains such as these, and to all the other blessings of western “consumer society”, broader measures of well-being have raced upward as well: infant mortality has plummeted, life expectancy has soared, and the quality of those extended years of life, in terms of freedom from chronic sickness and pain, is better than earlier generations ever dreamed it could be.

All this has been bestowed not just on an elite, but on the broad mass of people. In the West today the poor live better lives than all but the nobility enjoyed throughout the course of modern history before capitalism. Capitalism, plainly, has been the driving force behind this unparalleled economic and social progress. Yet today it is suspected, feared and deplored—and not just by the kind of energetic anti-capitalists who now and then put bricks through the windows of McDonald's.

According even to middle-of-the-road popular opinion, capitalism is at best a regrettable necessity, a useful monster that needs to be bound, drugged and muzzled if it is not to go on the rampage. Stranger still, this view seems to be shared by a good proportion of business leaders. Capitalism, if guided by nothing but their own unchecked intentions, would be wicked, destructive and exploitative, they apparently believe—bent on raping the planet and intent on keeping the poor outside the capitalist West in poverty.

In a much-discussed recent book, “The Corporation: The Pathological Pursuit of Profit and Power”, Joel Bakan, a law professor at the University of British Columbia, lays bare the danger. His themes were further developed and illustrated in a film of the same title, which was also successful and well reviewed.

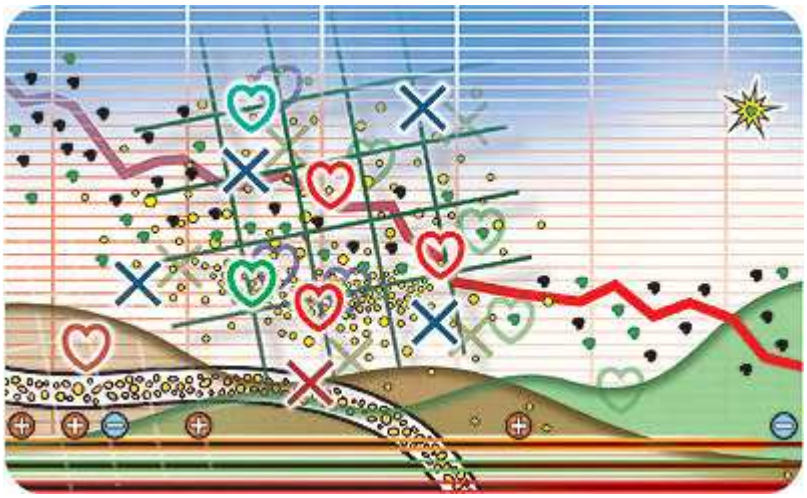
> The corporation's legally defined mandate is to pursue relentlessly and without exception its own economic self-interest, regardless of the harmful consequences it might cause to others...Today, corporations govern our lives. They determine what we eat, what we watch, what we wear, where we work and what we do. We are inescapably surrounded by their culture, iconography and ideology. And, like the church and the monarchy in other times, they posture as infallible and omnipotent, glorifying themselves in imposing buildings and elaborate displays. Increasingly, corporations dictate the decisions of their supposed overseers in government and control domains of society once firmly embedded in the public sphere. Corporations now govern society, perhaps more than governments themselves do; yet ironically it is their very power, much of which they have gained through economic globalisation, that makes them vulnerable. As is true of any ruling institution, the corporation now attracts mistrust, fear and demands for accountability from an increasingly anxious public. Today's corporate leaders understand, as did their predecessors, that work is needed to regain and maintain the public's trust. And they, like their predecessors, are seeking to soften the corporation's image by presenting it as human, benevolent and socially responsible.

In Mr Bakan's view, CSR is mostly a fraud. Companies, after all, are in “pathological pursuit of profit and power”. CSR is merely a means to those ends, a way to ingratiate capitalism to a rightly suspecting public. The book's jacket has blurbs of generous praise not just, as you might expect, from Noam Chomsky but also from an investment-fund manager and a CEO, who says it is holding up “a mirror for [corporations] to see their destructive selves as others see them”.

Many businessmen do seem to recognise themselves in that mirror. And popular culture has the corporate psycho in plain view—which is remarkable, given the corporation's suffocating grip on all thoughts and deeds. What is the capitalist ethos according to Hollywood? “Greed is good,” as Gordon Gekko explained in “Wall Street”. From “RoboCop” (the military-industrial complex) to “Super Size Me” (fast-food tyrants) and back again, the brave unequal war against corporate dominion is waged.

This paranoid fear of capitalism, shared by so many of its leading practitioners, boils down to two main ideas. First, profit in its own right has nothing to do with the public good. A company in pursuit of profit is seeking a purely private gain. If the pursuit of profit is to yield an advance in social welfare, then something else, acting with deliberation and intelligence from outside the corporation, must intervene. Second, in their mad pursuit of private gain, companies are driven by the logic of their quest to place crippling burdens on society and on the environment.

So far as society at large is concerned, in other words, the untrammelled pursuit of profit yields nothing, but costs plenty. Unless it is checked either by CSR or (as Mr Bakan would prefer, if only as a first step) by double-strength government regulation, private enterprise makes losers of everyone but itself.



Private profit, public interest

The perceived tension between private profit and public interest pervades the CSR literature. Yet the idea is never examined. It is always regarded as self-evident.

The top executives at Royal Dutch/Shell have lately been acting as CSR thought-leaders—and they are CSR champions in other ways as well (through the activities of the generously supported charitable activities of the Shell Foundation, for instance). Shell has a lot of popular suspicion to live down, following the scandal over its operations in Nigeria, for instance, and the controversy surrounding its plans for the disposal of the Brent Spar oil-drilling platform in the North Sea. Its senior executives have done their best. In a leaflet explaining why the company had embraced CSR, Sir Mark Moody-Stuart, who was chairman between 1998 and 2001, and before that managing director, wrote:

> [M]y colleagues and I on the committee of managing directors are totally committed to a business strategy that generates profits while contributing to the well-being of the planet and its people.

That seems entirely unobjectionable, you might think: a commitment to motherhood and apple pie. But the clear implication—and Sir Mark, to judge by other speeches and articles, buys it wholesale—is that if Shell simply made profits for its owners, that would in itself contribute nothing to “the planet and its people”. From this it follows that if Shell is to justify its activities to society at large, it has to do more than just make money for its owners. Therein lies the case for CSR. But is the premise actually true? True or false, it is never challenged.

One of the world's foremost CSR networks and organisations is the World Business Council for Sustainable Development. Its membership is made up of 175 big multinationals, including Shell, alongside firms such as ABB, Dow Chemical, Ford, General Motors, Procter & Gamble, Time Warner and so on. One of the council's publications begins:

> Although the rationale for the very existence of business at law and in other respects is to generate acceptable returns for its shareholders and investors, business and business leaders have, over the centuries, made significant contributions to the societies of which they form part.

Why yes. If you compare people's lives in the West today with those of people living, say, a century ago, or two centuries ago, it would be right, if perhaps a little miserly, to concede that

business has made some “significant contributions”. But in the council's opinion these moderately important benefits did not arise because businesses generated acceptable returns for their owners; they arose despite that fact. Profit, unfortunately, is necessary, as the council sadly notes: otherwise you cannot have business, along with the possibility of those quite useful contributions. But those contributions have to be separately willed. It is simply not in the nature of business as such to contribute. That is an add-on, a responsibility that business may choose to discharge or not discharge, as it sees fit.

So, anti-capitalists believe this; angry law-school professors (whose own significant contributions cannot be in doubt) believe it; and the leaders of international big business believe it. For good measure, many industrial-country governments, acting singly or in concert, believe it as well. Britain is just one of many countries to have designated a minister responsible for encouraging CSR initiatives. In 2001 the European Commission published a consultative paper entitled, “Promoting a European Framework for Corporate Social Responsibility”. The aim is “to launch a wide debate on how the European Union could promote corporate social responsibility at both the European and international level”. Values, it says, “need to be translated into action”.

Leading international institutions such as the World Bank, the United Nations, the Organisation of Economic Co-operation and Development, and indeed more or less any outfit of that sort you care to name, endorse the view that profit serves an exclusively private interest, and that blind pursuit of profit is therefore likely to prove socially harmful.

The United Nations is especially keen on CSR, as part of a broad new approach to global governance. It continues to promote its “Global Compact”, launched at the World Economic Forum in 1999. This initiative aims to draw together businesses and business organisations, NGOs, and UN and other international agencies. The goal of this new “tripartism”—an ongoing discussion among governments, companies and civil society (which is how the UN refers to NGOs)—is to find ways to “underpin the free and open market system with stable and just societies”.

It is one thing to believe that profit-seeking serves no public interest directly. It is another to believe that profit-seeking, unless tempered and channelled by CSR or in some other way, actually works against the public interest. This second idea, already noted, is an extension of the first. And this is where “sustainable development” comes in.

The concept of sustainable development puts flesh on the idea that business left to its own devices is dangerous. Untamed profit-seeking, it is argued, puts strain on the environment and exploits workers. At the same time the goal of sustainable development points to a more concrete agenda for CSR: while pursuing profit, enlightened companies should take care to protect the environment and uphold the rights of workers (and others) as well. Hence the “triple bottom line” which thought-leaders on CSR (including the United Nations and the European Commission) want companies to monitor and report: don't just aim to make money, but protect the environment and fight for social justice as well.

Unsustainable

One problem with the triple bottom line is quickly apparent. Measuring profits is fairly straightforward; measuring environmental protection and social justice is not. The difficulty is partly that there is no single yardstick for measuring progress in those areas. How is any given success for environmental action to be weighed against any given advance in social justice—or, for that matter, against any given change in profits? And how are the three to be traded off against each other? (CSR advocates who emphasise sustainable development implicitly insist that there must be such a trade-off, at least when it comes to weighing profit against either of the other two.) Measuring profits—the good old single bottom line—offers a pretty clear test of business

success. The triple bottom line does not.

The problem is not just that there is no one yardstick allowing the three measures to be compared with each other. It is also that there is no agreement on what progress on the environment, or progress in the social sphere, actually mean—not, at least, if you are trying to be precise about it. In other words, there are no yardsticks by which different aspects of environmental protection can be compared even with each other, let alone with other criteria. And the same goes for social justice.

One company reduces its emissions of greenhouse gases. One increases its spending on recycling. Another provides free child-care facilities for its workers. Another raises the wages of its lowest-paid workers. All of these things cost money: suppose, for the sake of argument, that all four have reduced profit by the same amount. Which company has done most to protect the environment? Which has done most to advance social progress? Overall, how far has each company improved its triple bottom line? Bearing in mind the cost, can you even say that any of them have done so?

The great virtue of the single bottom line is that it holds managers to account for something. The triple bottom line does not. It is not so much a licence to operate as a licence to obfuscate.

CSR advocates could reply that this misses the point. The idea of the triple bottom line is not that the three-dimensional performance of business can ever be judged as precisely as its orthodox one-dimensional performance. The triple bottom line is just shorthand for saying: take other things into account, acknowledge that profit isn't everything, and don't pursue profit relentlessly, as you would otherwise be inclined to, even at the expense of damage to the environment and infringements of the rights of workers and other stakeholders. You cannot be precise about these things, but at least you can recognise the social and environmental peril of too narrow a focus on profit.

That is a perfectly reasonable line of argument—or it would be, if a narrow focus on profit really did endanger the environment, systematically infringe the rights of workers and stakeholders, and in general fail to serve the public interest. That is the world according to CSR, but is the world really like that? The short answer is no. For a slightly longer answer, read on.

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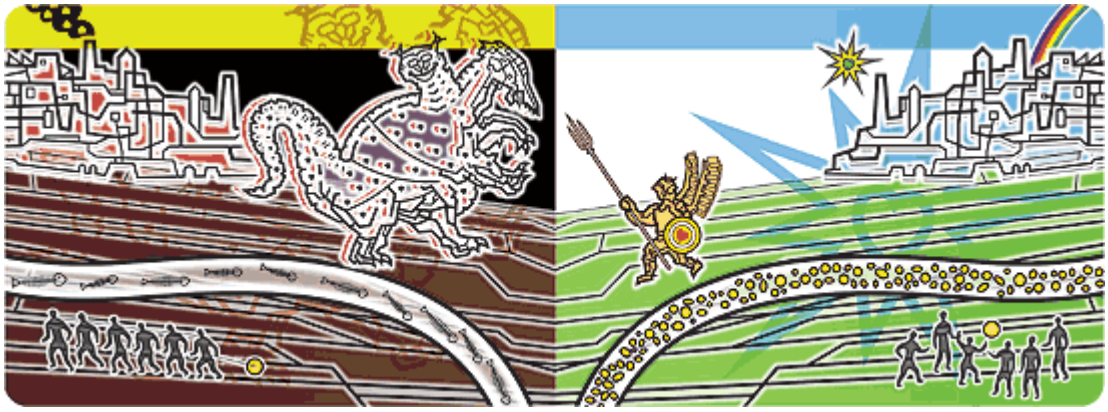
Profit and the public good

Jan 20th 2005
From The Economist print edition



Companies that merely compete and prosper make society better off

ADAM SMITH, you might say, wrote the book on corporate social responsibility. It is entitled, “Wealth of Nations”.

> Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it...he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.
>
> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

Smith did not worship selfishness. He regarded benevolence as admirable, as a great virtue, and he saw the instinct for sympathy towards one's fellow man as the foundation on which civilised conduct is built (he wrote another book about this: “The Theory of Moral Sentiments”). But his greatest economic insight—and indeed the greatest single insight yielded by the discipline of economics—was that benevolence was not in fact necessary to advance the public interest, so long as people were free to engage with each other in voluntary economic interaction. That is fortunate, he pointed out, since benevolence is often in short supply. Self-interest, on the other hand, is not.

If self-interest, guided as though by an invisible hand, inadvertently serves the public good, then it is easy to see why society can prosper even if people are not always driven by benevolence. It is

because Smith was right about self-interest and the public interest that communism failed and capitalism worked.

Most advocates of CSR, especially those who run giant international corporations, have probably read some economics in their time. Many of the officials at the United Nations, World Bank and OECD who argue in favour of CSR have advanced degrees in the subject from the best universities. Yet they have apparently failed to grasp this most basic and necessary insight of the entire discipline. Through the action of Smith's invisible hand, the private search for profit does advance the public interest. There is no need for thought-leaders in CSR armed with initiatives and compacts to bring this about.

Smith was a genius because this harmony of private interest and public interest is not at all obvious—and yet, at the same time, once it is pointed out, the idea is instantly simple and plausible. This is especially so if you think not about self-interested individuals but about profit-seeking companies. The value that people attach to the goods and services they buy from companies is shown by what they are willing to pay for them. The costs of producing those goods and services are a measure of what society has to surrender to consume those things. If what people pay exceeds the cost, society has gained—and the company has turned a profit. The bigger the gain for society, the bigger the profit. So profits are a guide (by no means a perfect one, but a guide nonetheless) to the value that companies create for society.

Does this mean that Gordon Gekko, the odious protagonist of the movie, “Wall Street”, was right to say that “greed is good”? No: greed and self-interest are not the same thing, as Mr Gekko discovered in that movie. Greed, in the ordinary meaning of the word, is not rational or calculating. Freely indulged, it makes you fat and drives you into bankruptcy. The kind of self-interest that advances the public good is rational and enlightened. Rational, calculating self-interest makes a person, or a firm, worry about its reputation for honesty and fair dealing, for paying debts and honouring agreements. It looks beyond the short term and plans ahead. It considers sacrifices today for the sake of gains tomorrow, or five years from now. It makes good neighbours.

Morally, also, there is a world of difference between greed and self-interest. The first, even if it were not self-defeating, would still be a gross perversion of the second. Failing to see this distinction, and thus concluding without further thought that private enterprise is tainted, is a kind of ethical stupidity. Greed is ugly. There is nothing ignoble, in contrast, about a calm and moderate desire to advance one's own welfare, married (as it is in most people) to a sympathetic regard for the well-being of others. And, as Smith pointed out, rational self-interest also happens to make the world go round.

Faulty premise

The premise that CSR advocates never question is in fact wrong. It is an error to suppose that profit-seeking, as such, fails to advance the public good, and that special efforts to give something back to society are needed to redeem it.

However, as already noted, profit succeeds as an indicator of value creation, and as a signal that draws new investment to socially useful purposes, only under certain circumstances. It cannot be taken for granted that these conditions will always be satisfied.

One main requirement is that firms are in competition with each other. The profits that a monopoly can extract from the economy are a measure of market power, not social gain. And monopoly profits may not serve as an effective signal for new investment if

economic barriers of one kind or another hamper competition by keeping new entrants off the monopolist's turf.

Oddly enough, business leaders who voice their commitment to good corporate citizenship rarely demand the removal of barriers to competition in their industries—a measure that would almost invariably serve the public interest. Manufacturers are far more likely to call for import barriers to be raised against their foreign competitors than they are to call for existing tariffs or other barriers to come down. Producers of all manner of goods and services are more likely to call for the introduction of licences and controls to protect their existing positions in their markets than to demand that newcomers should be permitted and even encouraged to contest those markets.

And CSR often helps them in this. Although it is true that many business leaders mean what they say about good corporate citizenship, and speak up for CSR in good faith, CSR is nonetheless far more often invoked as a rationale for anti-competitive practices than as a reason to bolster competition. Incumbent firms or professions seem to find it easier to comply with burdensome regulations if they know that those rules are deterring new entrants. That is why, often in the name of CSR, incumbent businesses are so given to calling for rules and standards to be harmonised and extended, both at home and abroad.

For the good of the public, you understand, barristers are opposed to reforms that would allow solicitors to appear more often as advocates in English courts (their training just isn't up to it). For the safety of the consumer, American pharmaceutical companies insist, extraordinary precautions must be taken before drugs can be imported from Canada (heaven knows what the Canadians, a devil-may-care sort of people, put into those pills). For the good of the world's poor, industrial-country manufacturers believe, goods should not be imported from countries where employees have to work long hours for low pay and without statutory vacations (that is unfair trade).

A great deal of economic regulation makes sense for one reason or another. But it is striking that business leaders—especially, it seems, those who speak up most enthusiastically for CSR—call for regulation that restricts competition far more often than they call for regulation that strengthens it. This prompts the thought that the design of economic regulation is best left to governments, rather than to corporate citizens, however enlightened.

Social prices

A second condition must be met before one can be sure that private enterprise in competitive markets is advancing the public good. Prices need to reflect true social costs and benefits. Many transactions, however, have side-effects—externalities, as they are called. Where they do, private costs and benefits diverge from public costs and benefits. Sometimes externalities are positive. If your neighbour repaints his house, that may increase the value of yours; since he fails to capture all the gains created by his spending, he may repaint his house less frequently than would be best for society at large—or, in this case, for your end of the street. Markets tend to undersupply goods that involve positive externalities.

Externalities can also be negative. The classic instance is a polluting factory. The owners of the factory and the customers for its goods do not have to bear the full costs of the pollution that

comes out of its smokestacks. Failing to take that into account, the market sets the price of the factory's goods too low. Demand for the product is stronger than it should be. Goods that involve negative externalities tend to be oversupplied.

This kind of argument is invoked to make sense of “sustainable development” and the claims pressed on business by that idea. Prices are wrong, the argument goes, so markets are failing. Pollution, including the accumulation of greenhouse gases, is not priced into the market, so there is too much of it. Impending shortages of natural resources are not priced into the market, so those resources are consumed too rapidly. The value of wilderness, either for its beauty or for its stocks of endangered species, is not priced into the market, so too much of it gets cemented over.

Whether the pattern of consumption based on these false prices is sustainable is really beside the point. Some patterns of consumption could be indefinitely sustained but still be wrong, causing mounting damage as far ahead as one can see. Others might indeed be unsustainable, meaning bound to be halted at some point, yet not be wrong, as when the approaching exhaustion of a raw material leads to the invention of a substitute. “Sustainability” has a nice ring to it, but it is not the issue. The question is whether false prices are causing big economic mistakes—and, if so, what might be done about that.

Many market prices do diverge from the corresponding “shadow prices” that would direct resources to their socially best uses. In many cases, the divergence is big enough to warrant government action—a point which all governments have taken on board, sometimes to a fault. All industrial-country governments intervene in their economies. In principle, much of this intervention aims to mitigate the misallocation of resources caused by externalities and other kinds of market failure. But it is important to keep a sense of proportion about the supposed unreliability of market signals.

So far as environmental externalities are concerned, most leading advocates of CSR seem to be in the grip of a grossly exaggerated environmental pessimism. The claim that economic growth is necessarily bad for the environment is an article of faith in the CSR movement. But this idea is simply wrong.

Natural resources are not running out, if you measure effective supply in relation to demand. The reason is that scarcity raises prices, which spurs innovation: new sources are found, the efficiency of extraction goes up, existing supplies are used more economically, and substitutes are invented. In 1970, global reserves of copper were estimated at 280m tonnes; during the next 30 years about 270m tonnes were consumed. Where did estimated reserves of copper stand at the turn of the century? Not at 10m tonnes, but at 340m. Available supplies have surged, and, it so happens, demand per unit of economic activity has been falling: copper is being replaced in many of its main industrial applications by other materials (notably, fibre-optic cable instead of copper wire for telecommunications).

Copper, therefore, is unlikely ever to run out—and if it did, in some very distant future, it would be unlikely by then to matter. The same is true for other key minerals. Reserves of bauxite in 1970 were 5.3 billion tonnes; the amount consumed between 1970 and 2000 was around 3 billion tonnes; reserves by the end of the century stood at 25 billion tonnes. Or take energy. Oil reserves in 1970: 580 billion barrels. Oil consumed between 1970 and the turn of the century: 690 billion barrels. Oil reserves in 2000: 1,050 billion barrels. And so on.

The colour of gloom

What about pollution? On the whole, rich countries are less polluted than poor countries, not more. The reason is that wealth increases both the demand for a healthier environment and the

means to bring it about. Environmental regulation has been necessary to achieve this, to be sure, because pollution is indeed an externality. But it is not true that the problem has been left unattended in the rich world, that things are therefore getting worse, and that CSR initiatives have to rise to the challenge of dealing with this neglect.

Strong environmental protection is already in place in Europe and the United States. In some cases, no doubt, it needs to be strengthened further. In some other cases, most likely, it is already too strong. Overall, the evidence fails to show systematic neglect, or any tendency, once government regulation is taken into account, for economic growth to make things worse.

How much of an exception to this is global warming? Potentially, as many CSR advocates say, a very important one. Emissions of greenhouse gases are causing stocks of carbon in the atmosphere to grow rapidly. Almost all climate scientists expect this to raise temperatures to some unknown extent during the coming decades. If temperatures rise towards the upper end of current projections, the environmental damage will be great.

Yet the world still lacks an effective regime for global carbon abatement. This is not so much because the United States has refused to support the Kyoto agreement as because that agreement is deeply flawed in any case—but this is beside the point. Global warming is a potentially very significant externality that governments up to now have failed to address properly.

Another such case is excessive encroachment on wilderness areas. Once a wilderness has been lost, it cannot be replaced—and, unlike for copper or oil, there will never be a substitute. Governments in many rich and poor countries are neglecting this issue.

But on questions such as these, where governments are, it seems, leaving significant market failures unaddressed, the question for businesses is whether CSR can do anything useful to bridge the gap. Many companies at the forefront of the CSR movement have embarked on initiatives of their own, aimed, for example, at reducing greenhouse-gas emissions or at protecting wilderness areas.

These would need to be judged case by case, to see whether particular policies were instances of “good management” (as when an oil company invests profitably in alternative fuels, anticipating both shifts in consumer demand and forthcoming taxes on carbon), “borrowed virtue”, (for example, creating private wilderness reserves at shareholders' expense), “pernicious CSR” (blocking competition in the name of specious environmental goals) or “delusional CSR” (increasing emissions of greenhouse gases in order to conserve raw materials that are not in diminishing supply).

There will be good and bad. As a general rule, however, correcting market failures is best left to government. Businesses cannot be trusted to get it right, partly because they lack the wherewithal to frame intelligent policy in these areas. Aside from the implausibility of expecting the unco-ordinated actions of thousands of private firms to yield a coherent optimising policy on global warming, say, there is also what you might call the constitutional issue. The right policy on global warming is not clear-cut even at the global level, to say nothing of the national level or the level of the individual firm or consumer. Devising such a policy, and sharing the costs equitably, is a political challenge of the first order. Settling such questions exceeds both the competence and the proper remit of private enterprise.

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The ethics of business

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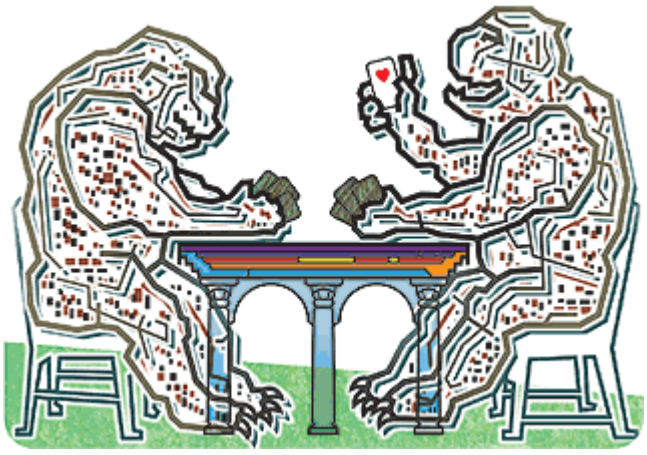


Good corporate citizens, and wise governments, should be wary of CSR

RECALL that Joel Bakan, the angry law-school professor and scourge of modern corporations, argued that CSR is usually a scam. It is for governments, he says, not firms, to decide questions of social, environmental and industrial policy—and governments should know that if they fail in that duty, the psychotic corporation, quite likely hiding behind CSR, will continue to rape and pillage.

Mr Bakan and those who share his morbid fear of capitalism are wrong about that second point. Not only is competitive private enterprise already heavily regulated; it also comes with a great deal of built-in additional self-interested self-regulation, as it were. But they are quite right about the first point. It is indeed desirable to establish a clear division of duties between business and government. Governments, which are accountable to their electorates, should decide matters of public policy. Managers, who are accountable to their shareholders, should run their businesses.

Does this mean that managers need not concern themselves with ethics? Just the opposite. Managers should think much harder about business ethics than they appear to at present. It is lack of clarity about business ethics that gives rise to confusion over what managers' responsibilities are, and over where the limits of those responsibilities lie.

The crucial point is that managers of public companies do not own the businesses they run. They are employed by the firms' owners to maximise the long-term value of the owners' assets. Putting those assets to any other use is cheating the owners, and that is unethical. If a manager believes that the business he is working for is causing harm to society at large, the right thing to do is not to work for that business in the first place. Nothing obliges someone who believes that the tobacco industry is evil to work in that industry. But if someone accepts a salary to manage a tobacco business in the interests of its owners, he has an obligation to those owners. To flout that obligation is unethical.

In addition, of course, managers ought to behave ethically as they pursue the proper business goal of maximising owner value—and that puts real constraints on their actions. In most cases, acting within these constraints advances the aim of the business, just as individuals find that enlightened self-interest and ethical conduct usually sit well together. But, for firms as for people, this will not always be true. Sometimes the aims of the business and rational self-interest will clash with ethics, and when they do, those aims and interests must give way.

Much the same goes for acting within the law. In democratic societies where the rule of law is upheld, businesses and individuals should work under a strong presumption that they will obey those societies' laws. This will generally be good for business, and usually will be ethical as well—but, again, not always. Now and then, depending on the circumstances, it is wrong to obey the law. And merely following the law does not exhaust a firm's ethical responsibilities, any more than it does an individual's. Some things that are legal are unethical; and many things required by ethics are not required by law.

Managers of companies must confront these questions in running their businesses, just as individuals must in leading their everyday lives. Business ethics, in short, is not an empty box. But what exactly is in the box?

Elaine Sternberg, an academic philosopher and business consultant (and a former investment banker), persuasively argues in her book, “Just Business”, that there are two main things: “ordinary decency” and “distributive justice”. These need to be understood in relation to the proper goal of the firm. Without these basic values, business would not be possible.

Be decent, be just

If owner value, and ownership itself, are to mean anything, there must be respect for property rights. This excludes, Ms Sternberg points out, “lying, cheating, stealing, killing, coercion, physical violence and most illegality”; it calls instead for “honesty and fairness”. Taken together, in her formulation, these constraints reflect the demands of “ordinary decency”.

Some businessmen appear to believe that anything which is not outright illegal, however unethical, can be regarded as proper business conduct. But without ordinary decency (which goes a long way beyond what the law requires of firms), business could not be carried on.

Firms that lie and cheat cannot expect to stay in business very long, even if their actions are allowed by law. Dishonest companies will be unable to borrow, to obtain working capital, or to form stable business relationships with suppliers and customers. Decency in this sense is not just good for business, it is essential. When it comes to maximising long-term owner value, honesty is not just the best policy, it is the only feasible policy.

Crime doesn't pay

What about organised crime, you might ask? The mafia lasted pretty well as a profit-maximising business, did it not? Yes, but organised crime nonetheless proves the point. See what a criminal or “indecent” enterprise has to do to grow and survive: it must corrupt and intimidate, and thoroughly subvert both politics and the criminal-justice system. Some sick jurisdictions have let that happen. Where the rule of law prevails, however, those methods do not work outside a highly circumscribed and perpetually beleaguered criminal domain. Inside this zone, enterprises are small, always in hiding, and in pathological conflict with each other. Outside it, in the light, honesty and fair dealing are required if business enterprises are to prosper and survive.

Granted, some critics of business regard “the big multinationals” as little more than outposts of a mafia-like empire. In the world according to Michael Moore, such companies do systematically lie and cheat, and get away with it by corrupting and intimidating, and subverting both politics and the criminal-justice system. There is indeed little to choose, on this view, between Halliburton (or IBM, for that matter, or General Motors or GlaxoSmithKline) and the *cosa nostra*. Now and then executives do commit crimes, of course. Usually, they are found out and punished. That aside, if you believe that “the big multinationals” are essentially criminal enterprises getting away with murder (perhaps literally), you are beyond the reach of an article about business ethics.

What about the second component of business ethics, distributive justice? In the business context, this simply means aligning benefits within the organisation to the contribution made to achieving the aims of the firm. Pay linked to performance and promotion on merit are instances of distributive justice within the company.

Much of what was said about the role of ordinary decency applies here too. Again, these notions of what is fair are widely accepted; on the other hand, they are not, for the most part, required by law; as a practical matter, they are needed if the business is to do as well as it can; and they are also questions of ethics, and hence part of the ethics of business. To promote a friend rather than the best person for the job, or to reward a manager for incompetence or wrongdoing, is a bad way to run a business—and is also unethical.

Many writers on business ethics, and just about all advocates of CSR, argue that this way of thinking mistakes the proper purpose of the enterprise. Making money for the owners is too narrow a view of what a corporation is for. It raises ownership—“mere ownership”, as they would say—too high. Owners are just one group among many kinds of different “stakeholders” in a business. It is wrong to run a business in the interest of one kind of stakeholder, ignoring the legitimate interests of all the others. Is this correct?

There is a lot of unnecessary confusion about “stakeholders”. Businesses certainly need to take account of other interested parties if they are to succeed as businesses: they must satisfy their customers, get on with their suppliers, motivate their workers, and so forth. In that sense, these different groups of stakeholders will have their say and exercise their influence. But “taking account of” is not the same as “being held accountable to”. Accountability refers to a much more formal and direct set of rights and obligations.

Of course it is always possible, as a matter of law, to create forms of managerial accountability to non-owners. Through the courts, you might say, managers are held accountable to society at large. Public policy can make managers accountable to regulators. Managerial accountability to workers can also be required by law: worker representation on company boards is mandated in Germany, for instance. (Whether this serves the interests of German workers, or of Germany's citizens in general, is nowadays in doubt.) But all such lines of accountability recognise owners as primary. You cannot deem stakeholders to be equal co-owners of a business without repudiating the very idea of ownership. And where the law does not create accountability to non-owners, there is none.

In many of the corporate scandals of recent years, it has seemed that managers have acted as though they were accountable to nobody—not even, and in some cases least of all, to the firms' owners. This has been rightly recognised as a problem, and a lot of time and effort has been spent

on trying to make accountability to shareholders—on matters such as executive pay—more effective.

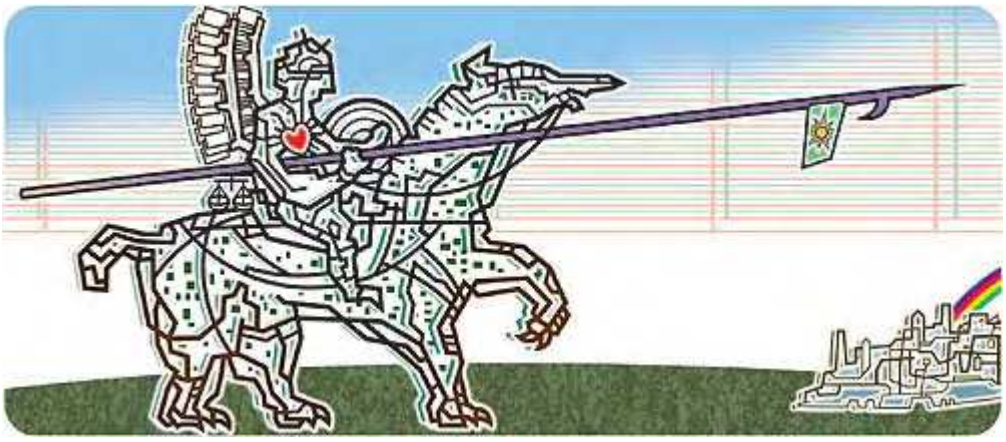
Muddled thinking on CSR, and on supposed accountability to non-owners, only makes it harder to put this right. Advocates of CSR ought to reflect on the fact that the “triple bottom line” and the bogus pay scheme which rewards bad performance with riches have something important in common: the idea that the interests of “mere owners” should not be allowed to come between managers and their personal objectives. Broken corporate governance and CSR are close relations. You often see them together.

Good companies, good government

An earlier section of this article sketched out a four-way classification of CSR: good management, borrowed virtue, pernicious CSR and delusional CSR. Does business ethics shed any more light on those categories? It does, though some of the results are a little troubling at first sight.

Good management and delusional CSR raise no new difficulties from an ethical point of view: the first, which increases profits and improves social welfare, is plainly a good thing and the second, which reduces both, is plainly not. Borrowed virtue has already been criticised on ethical grounds, even though it is assumed to advance social welfare. That verdict stands, as you would expect. A proper understanding of business ethics makes the reasoning clearer, but the main thing is still that the profits of a publicly owned company are not the managers' to give away. The remaining category is pernicious CSR, the kind that raises profits but reduces social welfare.

Is pernicious CSR also unethical? Often, paradoxically, the answer will be no. Managers cannot be criticised on ethical grounds for aiming to increase long-term owner-value: that is their job. Assuming that they have also acted within the law, the next question is whether they have violated the standards of ordinary decency and distributive justice within the organisation. If they have—if they have lied, or bribed, or coerced, for instance—then they have behaved unethically. But if they have acted in accordance with those two standards of business conduct, they are ethically in the right, even though they have acted against the public interest.



This is not as strange as it seems. Consider the case of monopoly. Managers are not to be criticised on ethical grounds for striving to drive their competitors out of business—provided that they do this by selling a better product, for instance, rather than by deception or coercion or through unlawful anti-competitive practices. And if they succeed in establishing a monopoly, it is not unethical to set a price that maximises the company's profits, or even (to the extent that the law allows it) to create business barriers to the entry of new competitors (for instance, by

spending heavily on advertising). For that matter, it is not unethical for a company to lobby the government for protection from foreign competition, citing its concerns, as a good corporate citizen, for the well-being of its workers. All of these things may well be ethical—even when, from the point of view of society as a whole, they are likely to be undesirable.

This seeming paradox only underlines the point that businesses should not try to do the work of governments, just as governments should not try to do the work of businesses. The goals of business and the goals of government are different—or should be. That, by the way, is why "partnership" between those two should always arouse intense suspicion. Managers, acting in their professional capacity, ought not to concern themselves with the public good: they are not competent to do it, they lack the democratic credentials for it, and their day jobs should leave them no time even to think about it. If they merely concentrate on discharging their responsibility to the owners of their firms, acting ethically as they do so, they will usually serve the public good in any case.

The proper guardians of the public interest are governments, which are accountable to all citizens. It is the job of elected politicians to set goals for regulators, to deal with externalities, to mediate among different interests, to attend to the demands of social justice, to provide public goods and collect the taxes to pay for them, to establish collective priorities where that is necessary and appropriate, and to organise resources accordingly.

The proper business of business is business. No apology required.

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This survey owes a lot to "Misguided Virtue" by David Henderson, published by the Institute of Economic Affairs in London; "A Poverty of Reason" by Wilfred Beckerman, published by the Independent Institute; and "Just Business" by Elaine Sternberg, published by Oxford University Press. This is not to say that these authors would agree with each other, or with this survey, about all of the issues discussed.

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Airbus versus Boeing

The super-jumbo of all gambles

Jan 20th 2005 | TOULOUSE
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EPA

Airbus unveils its double-decker for a new era in aviation

Get article background

SIR RICHARD BRANSON, founder of Virgin Atlantic, did not need to watch the Martin Scorsese, Leonardo DiCaprio award-winning movie, “The Aviator”, last Sunday to learn how critical the choice of new aircraft is (among other things) to an airline's fortunes. Nevertheless Sir Richard emerged from the film “quite inspired” before flying to Toulouse for the unveiling of his latest choice, the Airbus A380. This is the biggest passenger jet the world has seen, built to carry at least 555 passengers. He has decided, along with 13 other airline bosses (so far), that the A380 is going to make him money.

At a spectacular two-hour show featuring dancers, trapeze artists, fountains and holographic planes “flying” about the giant hangar, 4,500 guests saw the aircraft, with its double-decked body and curving wings, unveiled in gleaming white. But once the show was over and the celebrating politicians gone, the real work continued: to persuade the world's leading airlines that this is the plane to transform air travel, as the original “jumbo”, the Boeing 747, did 35 years ago—and that it is not a commercial dud like Concorde.

Like Howard Hughes, the subject of “The Aviator”, whose giant, eight-engined “Spruce Goose” eventually succeeded as Lockheed's Hercules troop carrier, Airbus is taking an enormous gamble on its double-decker, due to make its first test flight by the end of March for entry into service in June 2006. It has cost over €12 billion ($15 billion) to get this far, spread equally between Airbus, its industrial partners and the European governments that have advanced refundable launch loans.

Airbus foresees a market for 1,650 super-jumbo aircraft (including freighters) over 20 years. It needs to sell half that to make money.

Those magnificent men

The bosses of the 14 airlines which have already agreed to buy some 149 A380s were in Toulouse to explain their decision. The A380 should cut the cost of carrying one passenger one mile by between 15% and 20%, compared with the 747, the “queen of the skies”. She is now entering her twilight years. Only ten freighter versions have been ordered in the past year, and production is down to about one 747 a month. Airlines that need very big planes have instead opted for the new Airbus, which the Toulouse plant is expected to produce at a rate of four aircraft a month.

Virgin and other carriers such as Singapore Airlines, Lufthansa and Emirates operate long-haul services, frequently using airports, such as London's Heathrow, where there are limited runway slots for take-off and landing. Some airlines on busy long-haul routes fly two 747s almost simultaneously, wing to wing. Putting their combined payload into one more efficient, larger aircraft plainly makes sense.

The A380 will initially be able to carry about 30% more passengers than the 747 in a conventional layout, with 50% more floor space. No wonder Sir Richard talks of adding gyms, bars, beauty parlours, casinos and private beds (“to give you two chances to get lucky”). Less populist, Tim Clark, president of Emirates, which has ordered 45 planes to fulfil its ambitions of establishing Dubai as a new global hub, says that business and first-class passengers will enter through separate doors to an exclusive upper deck. Like passengers on the old ocean liners, they will not have to mix with the cramped masses below.

The promised lower operating costs mean plenty of profit potential for airlines confident that they have enough heavy-traffic routes to fill most of the seats. Chris Avery of J.P. Morgan points out that, thanks to economies of scale and modern technology (the 747 was designed some 40 years ago), the A380 needs only 11% more passengers (323) than does a 747 to break even on a trip. Yet it can carry 232 more than that, from which it can profit. Even the biggest Boeing can cram in only 123 more than its 290-passenger break-even level.

Yet Boeing is convinced that Airbus is making a huge strategic error. Bosses of the Chicago-based company are wont to quote Napoleon on never interfering with your enemy when he is making a great mistake. But such bombast is now wearing thin as orders for the new Airbus roll in. Industry insiders are convinced that, by Easter, Airbus will have landed a Chinese order for the plane, while leading carriers such as Cathay Pacific and British Airways are merely sitting temporarily on the sidelines, waiting for the inevitable teething troubles to be sorted out and for the even bigger versions of the new aircraft expected before long.

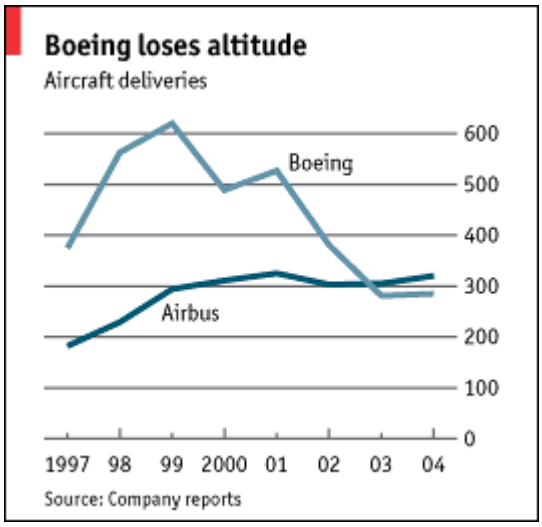
Boeing's strongest argument is that the air-travel market is fragmenting. People want to travel direct to their long-haul destinations, not squeeze into huge planes before changing later to smaller ones at crowded hub airports in order to reach their final destination. The success of the 747 was ensured by the fact that its huge wings and fuel tanks allowed it to fly farther than any other plane. But smaller widebody jets half the size of the new Airbus can fly as far as the A380. These planes open up the long-haul market while reducing the airlines' risk, because they need to fill fewer seats to cover the trip cost.

Boeing thinks that there will be a market for barely 400 very large aircraft (ie, bigger than today's jumbos) over the next 20 years. It sought to address this demand with stretched versions of the latest 747s, but has had no takers. On the other hand, Boeing's chief executive, Harry Stonecipher, says that, if there turns out to be a far bigger market than it now expects, Boeing will

certainly enter it.

Yet that might prove difficult. Mr Avery asks where Boeing would go to find customers. The long-haul airlines with the greatest need are already buying the new Airbus, and would have little incentive to wait at least three years for a Boeing super-jumbo to emerge. “It really does look like Boeing have missed the boat,” he says.

Airbus, having just beaten Boeing on deliveries for a second year (see chart), is delighted to have broken Boeing's monopoly for really big jets. It can even afford to launch a rival to Boeing's mid-sized 7E7, called the A350, even though the terms of a truce in the battle between Europe and America over government subsidies require it to use its own money for this spoiler. But two things could upset Airbus. In 1992 the Toulouse manufacturer thought it had stolen a huge lead on Boeing with its big A330-A340 widebodies. But Boeing struck back in 1995 with its all-new 777 model, which sold well at Airbus's expense. Airbus had thought its competitor would merely upgrade the 767, an older widebody. This time, another 747 upgrade, allowing up to 450 seats (about 30 more than today's jumbos), might drain off some demand for the new Airbus. The low development costs of a 747 upgrade would mean it could be priced keenly to counter the A380's lower operating costs.



Another potential nightmare for Airbus is that the airlines that have already ordered the new plane may give a false impression of likely long-term demand. What if these pioneers prove to be the bulk of the potential buyers? The new Airbus must also overcome the wariness of travellers about the hassle of getting in and out of such a giant craft (and, presumably, the consequent long queues at immigration). Maybe onboard bars will lure them.

Airbus bosses agree that passengers prefer, by and large, to fly direct. But hub-and-spoke economics combined with a 20% lower cost per passenger are strong grounds for believing that the A380 will become this century's long-haul workhorse, as the 747 was in the last one.

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The movie industry

Lights. Industrial action!

Jan 20th 2005 | HOLLYWOOD
From The Economist print edition

A strike looms in Hollywood

AP

A casting director's dream

IS HOLLYWOOD, so accustomed to luvvy-duvvy self-congratulation (this month the Golden Globes, next month the Oscars), about to indulge in a hardball labour dispute? America's 500-or-so casting directors and associates—the unsung people-brokers who select actors for a film's director or producer—are threatening to strike if the Alliance of Motion Picture and Television Producers (AMPTP) refuses to grant them union recognition and health and pension benefits.

Since the AMPTP represents the big studios and, by extension, big corporations such as General Electric and Viacom, it might seem an unequal contest—except that the Casting Society of America (CSA), representing 368 of the casting directors, has the backing of the 1.4m-strong, much feared International Brotherhood of Teamsters. The Teamsters represent some 4,100 studio drivers, location managers and location scouts, and their refusal to cross picket lines would be hard to ignore. In other words, the AMPTP has a bit of a headache, made worse by the need this week to resume negotiations for a new three-year contract with the 98,000-member Screen Actors Guild—brilliantly satirised recently in the movie “Team America”—and the 80,000-strong American Federation of Television & Radio Artists.

Even so, the studios are not about to admit defeat. In an informal meeting with the CSA last week, the AMPTP offered to provide health and pension benefits (“the studios are very sympathetic,” says one studio insider), but remained adamantly opposed to unionisation. Its position ahead of a meeting scheduled for early next month is that the casting directors are independent contractors: if they form a collective bargaining unit they will automatically be in breach of federal and state antitrust laws—and the Teamsters will be guilty of inducing them to breach their contracts with the studios.

Yet virtually every other group in Hollywood, from scriptwriters to costume designers, belongs to a guild or union that negotiates working conditions. Moreover, as the CSA pointed out late last week in an advertisement in the trade press, “almost all other groups, including actors, directors, writers, drivers, location managers, production office co-ordinators, grips, electricians, editors, costumers and craft services” receive health insurance and a pension plan. Steve Dayan, of the Los Angeles Teamsters, says bluntly: “Forget the legal issues. Morally and ethically the studios should be taking care of these people.” The studios may be ready to agree benefits, he says, but without a union to protect them, how can the casting directors be sure that the agreements will be kept?

Embarrassingly for the studios, many movie people agree. As Woody Allen puts it: “Casting directors are responsible for the one element that holds audiences in thrall more than any other: the cast. How can they not be afforded the health and retirement benefits the rest of the community enjoys? I support their unionisation effort.” Gone are the days when the seductive power of the casting couch over aspiring stars was compensation enough.

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The perfume business

Scents and sensibility

Jan 20th 2005 | HONG KONG AND PARIS
From The Economist print edition

Hutchison Whampoa is buying a troubled French perfume retailer

IT IS the end of a French success story. Twenty-one years ago Marcel Frydman launched Marionnaud after buying his first *parfumerie* in Montreuil. The firm became Europe's largest perfume chain, with 1,231 shops in 15 countries. Then last year it ran into difficulties, and Mr Frydman decided to seek a buyer. On January 14th, he found one. A.S. Watson, a manufacturing and retailing subsidiary of Hutchison Whampoa, a Hong Kong-based conglomerate controlled by Li Ka-shing, struck a deal to buy Marionnaud.

Mr Li will now be the world's biggest perfume retailer. This billionaire's firm already owns eight health-and-beauty chains with more than 4,500 shops in 19 countries. Its focus is the low end of the market, using mass-market brands such as Superdrug in Britain, Kruidvat in the Netherlands and Belgium, and Watsons in Asia. Through Marionnaud, he hopes to add French glamour to such drab offerings. Marionnaud is the market leader at home with a 30% share. It also has big chunks of the Italian, Spanish and Swiss markets.

Yet Mr Li may be underestimating Marionnaud's troubles. At the end of December Mr Frydman admitted to taking a €93m ($120m) charge to cover accounting errors in 2002-03. On January 11th the AMF, France's markets watchdog, suspended trading in Marionnaud shares and opened an investigation into the group's accounts. Marionnaud's debts are high. Mr Li is paying €534m for Marionnaud, as well as taking over €350m in debt and an estimated €350m in off-balance-sheet liabilities, such as rent for shops.

Many of Marionnaud's subsidiaries outside France are leaking money. Only its Austrian operation makes healthy profits. Even at home, Marionnaud expanded too quickly. There are two or even three Marionnaud shops, often only a stone's throw apart, in some commercial streets in France. It would make sense to shut one in three Marionnaud shops in France, says Olivier de Combarieu of Fitch, a credit-rating agency—but the unions would fight it.

Mr Li wants Marionnaud to take on Sephora, a perfume and cosmetics chain owned by Louis Vuitton Moët Hennessy (LVMH), a group of several dozen luxury-goods companies. Sephora, known for its trendy interior and even cooler assistants, has been something of a financial flop for Bernard Arnault, boss of LVMH, though things have improved lately. Ian Wade, managing director of A.S. Watson, believes that his firm can add some of Sephora's panache to Marionnaud, but do it more efficiently. Sephora's financial problems partly stem from its expensive store fittings and pricey brands. Mr Wade plans to cut such costs at Marionnaud by shipping in fittings such as ceilings and floorboards cheaply from China.

Hutchison's ambitions are even bigger for mainland China, where it has 100 drug stores and no upmarket brands. It plans to open some 1,000 shops there by 2010. Marionnaud could be the focus of that expansion, offering a way into China's booming cosmetics market—with sales

forecast to rise over 50% by 2010. But first the new owners must sort out the French group's financial woes and get rid of the bad odour coming from its accounts.

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The Kremlin and business

KGB Inc

Jan 20th 2005 | MOSCOW
From The Economist print edition

Who Vladimir Putin trusts to run Russian business

IT IS a quirk of Russian history that the country's best hope of recovering the influence lost by Moscow with the fall of the Soviet Union is through the energy business. A sub-quirk is that, even aside from spy-turned-president Vladimir Putin, a growing number of those presiding over Russian businesses were once involved with efforts to confound the West by other means. Such people do not exactly seem like ideal corporate partners. But, increasingly, it may be safer for investors to be with them than against them.

One former spy, who now works for a Moscow investment bank, says that in the early 1990s his erstwhile colleagues' experience of living abroad and dealing with foreigners helped them find new jobs. They could claim to be well-connected, even if they were not. On the whole, the labour-market pull of vintage spooks may have lessened since then, but not, it seems, at the top of the corporate ladder. Victor Ivanov, who served in the KGB and the FSB, its successor, for more than 20 years (and is a senior aide to Mr Putin), now chairs the board of Aeroflot, another chunk of which may be privatised soon. The résumé of Igor Sechin, deputy head of Mr Putin's administration and chairman of Rosneft, a state-owned oil firm, includes a telltale spell as a “translator” in Africa.

True, the Kremlin nominated members to the boards of firms in which the government had a stake long before Mr Putin moved in. But Olga Kryshtanovskaya, a sociologist who studies Russian elites, says that there is a new trend for the appointees to come from the presidential inner circle. Other such board members include Dmitri Medvedev, head of Mr Putin's administration, at Gazprom, the state-run gas giant, and Vladislav Surkov, another deputy head, at Transnefteprodukt.

Some of these Kremlin henchmen have little or no business experience. And, for investors in the enterprises they help to run, they bring more specific risks. One is that, especially in the energy sector, they will make important decisions, as Paul Collison, an analyst at Brunswick UBS, puts it, in the interests of “only one shareholder—the state”. And if the dismemberment of Yukos is any guide, Mr Putin's crowd does not have an especially high regard for the rights of minority shareholders. Mr Sechin is thought to have been one of the main engineers of Yukos's demise; after a shady auction, Rosneft has acquired Yukos's main subsidiary. He is tipped for a leading role after the forthcoming merger of Rosneft with Gazprom.

Those observers who remain bullish about Russia's business prospects argue that, in their heyday, the attitude of the oligarchs to corporate governance was much worse than that of KGB Inc today. In fairness to Mr Ivanov, he seems not (so far) to have had a deleterious impact at Aeroflot. But such appointments make one assumption common among buyers of Russian equities—that underperforming firms will improve over time thanks to better oversight—look like quite a gamble.

Unfortunately, the risks of betting on Russian firms in which the Kremlin does not have a say, especially those in competition with state-dominated interests, look even greater. For Mr Putin, predicts Chris Weafer of Alfa Bank in Moscow, putting his loyalists on the boards of firms such as Rosneft is only a prelude to ensuring that these firms become the undisputed champions in their industries. If he is right, in many non-state firms the dangers of poor governance will increasingly be eclipsed by the perils posed by government, in terms of licence revocations, access to pipelines and so on—not to mention, as Yukos discovered, surprise tax bills.

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Italian television

Warring moguls

Jan 20th 2005
From The Economist print edition

Has Silvio Berlusconi upset his chum, Rupert Murdoch?

Reuters

Rupert's chum looks glum

WHEN Mediaset, a media firm owned by Silvio Berlusconi, Italy's prime minister, bought the rights to broadcast the matches of the country's top football teams on digital terrestrial television last summer, analysts interpreted it as a setback for Rupert Murdoch's Sky Italia. But what most alarmed Sky Italia was that it had not even known that the football rights were up for sale. It only found out when Mediaset announced its deal. When Mr Murdoch heard, according to someone close to the mogul, he was furious.

Mediaset craftily took advantage of a ruling by the European Commission when Sky Italia was formed from the merger of Telepiu and Stream in 2003. This said that Sky Italia could not have exclusive access to football across all the means of delivering TV. Thanks to Mediaset's move, Italians can for the first time this weekend use pre-paid cards to watch Inter Milan play Chievo Verona live on digital terrestrial TV—with more top league "Serie A" matches to follow. They will pay only *euro*3 ($3.90) a game. That is likely to reduce the appeal of Sky Italia's local football offering, which costs €47 each month, or €15 per game for pay-per-view. Mediaset's cards are selling fast, with Italian newspapers this week reporting shortages.

Another annoyance for Sky Italia is the fact that the Italian government is subsidising digital terrestrial boxes by some €70 each in an effort to move the whole country off analogue TV and on to digital by the end of 2006. That in turn benefits Mediaset at the expense of Sky Italia, and helps it to expand its business model beyond free-to-air into pay TV, Mr Murdoch's territory.

Sky Italia's management is now trying to learn lessons from Mediaset's coup. Its own people "were not as integrated into the society as they might have been", says one executive at Mr Murdoch's News Corporation. Tom Mockridge, Sky Italia's boss, is learning Italian. Sky Italia will now try to claw back some fraction of the money it handed over to Italy's football clubs in 2002. But some people wonder whether Mr Murdoch has met his match in Mr Berlusconi and Mediaset, which has a dominant position in Italian television. In Italy—unlike in other countries, where Mr Murdoch usually wields market power—"he's the small guy and he's from out of town," observes one media banker in London.

Perhaps because they do not want to provoke Mr Berlusconi, executives at News Corporation deny reports of Mr Murdoch's displeasure. They point to his long, close friendship with the prime minister. Mr Berlusconi even bought from Mr Murdoch the *Morning Glory*, the boat on which Mr Murdoch had married his third wife, Wendy Deng. They protest (too much?) that Mr Murdoch is relaxed about the current situation.

The perception among Italian television executives is that Sky Italia has reached a peak with its current 3m subscribers, but there may still be room to grow. Half of the people who buy one of its premium packages opt for movies rather than football; for them, Mediaset's pay-per-view cards are not a substitute. In any case, the two firms are mostly targeting different markets for football, News Corporation argues, since the cards are so cheap and do not offer, for instance, any foreign football championships.

If Sky Italia can reach Mr Murdoch's goal of adding 400,000 subscribers by the end of June, it will start making money this year. Thereafter, because Sky Italia is not spending too much to acquire subscribers and is mostly managing to keep them, the firm should earn Mr Murdoch a lot of cash. As yet unknown, however, is just how far Mediaset wants to challenge him in the pay-TV business—and whether the Italian market is big enough to allow these two old friends to play together happily.

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Business in Japan

Clearer signal

Jan 20th 2005 | TOKYO
From The Economist print edition

Fuji TV awards another victory to Japan's active investors

IN JAPAN, where cross-shareholdings and wacky ownership structures abound, any progress towards common-sense capitalism surely warrants cheers. The pace at Fuji TV, it must be admitted, has been a lot slower than the Formula 1 races that it regularly broadcasts to Japanese viewers. But on January 17th, Fuji TV finally announced a tender offer that will tidy up its cross-holding arrangement with Nippon Broadcasting System (NBS), a radio broadcaster, and take NBS under its wing as a normal subsidiary. This plan should help Fuji TV to resolve a long-running argument with investors, and hopefully allow it to focus more attention on its strategy as digital broadcasting spreads in Japan.

Other investors have complained for the past couple of years about the 22.5% stake that NBS holds in Fuji TV. Until recently, that stake was worth more than NBS's market capitalisation, implying that the rest of the NBS business had negative value. One investor who saw an opportunity was Yoshiaki Murakami, a former bureaucrat who now heads M&A Consulting (MAC), an investment outfit that has found easy pickings among wasteful cash-rich firms. MAC started buying NBS shares in 2003, eventually becoming its largest investor with an 18.6% stake, then badgered the two firms to resolve their cross-holding mess.

Fuji TV, which already owns 12.4% of NBS, will pay a 21% premium to buy (at least) a majority stake. It will issue ¥73 billion ($710m) in convertible bonds—it says, to help finance the deal. “We are basically happy,” says Kenya Takizawa, a partner of Mr Murakami at MAC.

But some of Fuji TV's investors are cautious. They are not sure why Fuji TV needs to issue new debt, especially bonds that could dilute their ownership. They also want to see if the firm will improve its business, now that it has cleaned up its finances, or whether buying off Mr Murakami will instead prove to be a case of unproductive greenmail.

Fuji TV launched some successful new dramas last year, and Masaru Ohnishi, a media analyst at J.P. Morgan, points out that it was Japan's ratings leader in all three main time segments. It is still looking for new ways to combine content from different bits of its media group, however, and is hoping to meet a growing demand for digital content in Japan, including high-definition broadcasting and content for video-equipped mobile phones. Mr Ohnishi reckons that Fuji TV will now be able to do more with Pony Canyon, an NBS subsidiary that distributes DVDs of Fuji TV's dramas, movies and other content.

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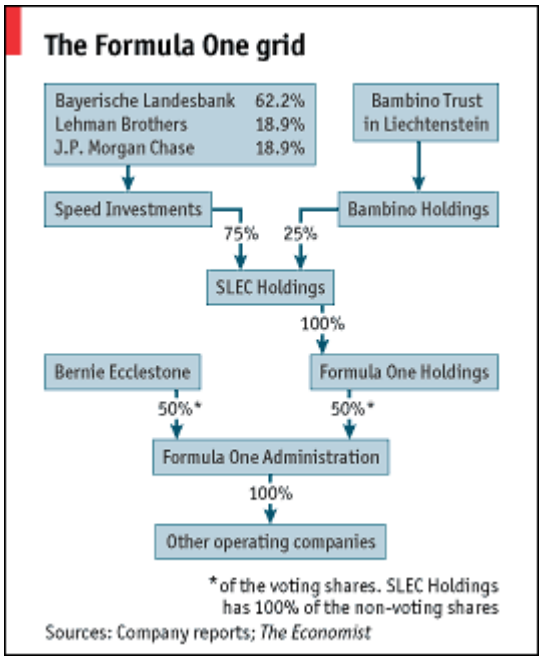
Motor racing

Bernie's share

Jan 20th 2005
From The Economist print edition

Bernie Ecclestone is being sued after an unusual corporate manoeuvre

Get article background



SINCE 2002, a titanic struggle has been raging for control in the boardrooms of the complex web of firms that exploit the commercial rights to Formula One (F1) motor racing (see chart). A court verdict last month went decisively in favour of three banks with a 75% stake in the F1 firms, and against the minority shareholder, Bambino Holdings—a firm controlled by a family trust of Bernie Ecclestone.

The three banks—Bayerische Landesbank, Lehman Brothers and J.P. Morgan Chase—became shareholders in the F1 firms when a big borrower, Kirch, a German media group, went bust in 2002.

As a result of the court verdict, Mr Ecclestone's 30-year grip on the commercial side of F1 seemed in peril. But two weeks later, Mr Ecclestone put one pound ($1.90) into the coffers of Formula One Administration (FOA). In return, according to documents filed at Companies House in Britain, he got 50% of the voting shares of FOA. Hundreds of millions of dollars flow each year through this firm, of which Mr Ecclestone is chief executive.

Last month's court win gave the banks board control of Formula One Holdings (FOH), which at the time was the sole holder of FOA's voting shares. With control of FOH, the banks had the legal power to put themselves in the driving seat at FOA. It seemed that their main decision was whether to sack Mr Ecclestone as a director and appoint someone else or, instead, rely on further action in court.

In December the banks said publicly that firing Mr Ecclestone would be a mistake, given his 30 years of experience in the business. But they retained the option of doing so because they controlled, through FOH, more than 50% of FOA's voting shares. The share issue to Mr Ecclestone, however, reduced FOH's holding to exactly 50% and so neutered its power.

The share issue to Mr Ecclestone also potentially undermines the preferred strategy of the banks: to gain control of the FOA board by persuading a court to invalidate a change to the firm's articles of association made by Bambino when it wrested board control in 2002. This change limited the number of FOA's directors to a maximum of three. Mr Ecclestone and Stephen Mullens, a British

lawyer who is Bambino's appointee, comprise a majority on FOA's board. (Under FOA's articles, only Bambino can remove Mr Mullens.)

If a court were to overturn the limit of three on the number of directors, as the banks wished, FOH would then have been able to secure a majority on FOA's board, using its voting power as FOA's shareholder. But now he has equal voting power, Mr Ecclestone would be able to match the banks' board appointments.

The effect of the share issue, if unchallenged, would be to ensure that the banks never have board powers within FOA commensurate with their shareholding in the F1 group. The share issue, which would have been approved by a majority of FOA's board (ie, Mr Mullens and Mr Ecclestone), thus appears highly questionable.

Given the circumstances, it seems inconceivable that the banks would not contest the matter. According to records publicly available at the High Court in London, the banks are suing Mr Ecclestone. The subject of their lawsuit, started on January 5th, is not yet a matter of public record, but it is almost certain to be the £1 deal with which Mr Ecclestone gained 50% of FOA. The banks decline to comment, as do Mr Ecclestone and Mr Mullens.

Mr Ecclestone, who is 74, said in December that retirement would kill him. If he loses the court case, he may be forced into it. But he is evidently not going to give up his power without a fight.

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Intellectual property in India

Patently unclear

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A crucial new intellectual-property regime disappoints

INDIA'S emergence as an economic powerhouse was supposed to take another big step forward this year with the implementation of a new regime for protecting patents. The weak old regime long deterred foreign firms from setting up in India to use the country's ample supply of educated workers to develop new products. Foreign drug firms, in particular, looked forward eagerly to the new patent protections that India was obliged to introduce this year to meet the requirements of the World Trade Organisation (WTO). Alas, when India's government duly issued an ordinance (presidential decree) on patents in late December 2004, foreign firms (and some enlightened Indian ones) were almost as disappointed as the anti-WTO protesters around the world who had long opposed stronger patent protection.

For India, the WTO rules meant, above all, recognising product patents. These stop any other firm making or selling a similar product without compensating the innovator. Lacking such a patent until now, Indian drug firms, for instance, specialised in making copycat drugs and selling them cheaply to India's huge population and beyond.

GlaxoSmithKline (GSK), one of the world's biggest drug firms, has long aspired to do much more of its drug development in India. In 2003 it even formed a partnership with Ranbaxy Laboratories, one of India's leading drug firms, to identify new drugs and conduct early-stage clinical trials. But the weak legal regime severely limited what the partnership could do.

Yet GSK says it is disappointed with India's new patent regime. It wants legislation to back up unambiguously the ordinance. But the Communist Party of India (Marxist)—one of the backers of the otherwise mostly market-oriented government—has decided to oppose the new legislation when it comes up for debate in Parliament in February.

And the proposed legislation is worryingly weak on some crucial issues. GSK says the government has failed to recognise the need to ensure data exclusivity for product patents, so that no other firm can make or market the same drug using the data released with the product. It is also unclear about when, exactly, the government will be able to overrule a patent with compulsory licensing on the grounds of making a drug available cheaply to the poor.

And even a good law would still have to contend with India's inefficient bureaucracy and legal system. With over 12,000 applications already filed with the patent office and the new team of evaluators, it may take at least 18 months for the first product patent to be issued.

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Face value

Beyond Janet Jackson's breast

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Getty Images

The case for Michael Powell, America's controversial media and telecoms regulator

BY ALL rights, Michael Powell ought to be thoroughly fed up. As head of the Federal Communications Commission (FCC), a regulator whose reach spans telecoms, media, the internet and everything in between, Mr Powell has endured one mortifying policy defeat after another. From a battle over America's media-ownership rules to a scrap about telecoms regulation, the courts, Congress, the media and even fellow Republican commissioners have taken turns sticking the knife into the FCC's soft-bellied chairman. Yet fresh from the ritzy Consumer Electronics Show in Las Vegas, Mr Powell seems as full of zest for public office as ever. Broadband internet use is spreading at “triple-digit rates”, he gushes. New sorts of digital content and communications services proliferate. Super-cheap, off-the-shelf internet phone services—called voice over internet protocol (VOIP)—are “very for real”. In short? America's digital revolution marches on.

Mr Powell's critics would counter that much of this onward marching is taking place in spite of the FCC's best efforts to impede it. Even his friends would admit that FCC policy has become oddly fluid under Mr Powell's stewardship. The agency's deregulation in June 2003 of America's media-ownership rules (which limit the freedom of firms with public-broadcasting licences to buy other media companies) got partially reversed by Congress (in December 2003), and then put on ice altogether by the courts (in June 2004). Mr Powell must now decide whether to appeal that ruling to the Supreme Court. Americans still await the publication of long-promised rules governing how telecoms firms may compete with each other in the market for local services. The courts struck down an earlier effort at rulemaking (passed despite Mr Powell's own opposition to his agency's new rules) last year. An FCC ruling exempting cable companies from the sort of regulatory micromanagement that telecoms firms must endure is also under judicial attack. Only the FCC's zealous crusade against indecency over the public airwaves has appeared to work for Mr Powell, as

it has taken on offenders from radio-host Howard Stern to Bono and Janet Jackson's errant breast (so disturbing to some viewers of last year's Super Bowl).

Mr Powell, whose second (and most probably final) five-year term expires in 2007, amiably waves away these trifling setbacks. Last month, three of the FCC's five commissioners agreed to a new set of local telecoms rules, he points out. (This time, Mr Powell was among them.) The details should be out soon. As for his media-rules upset, Mr Powell maintains that he was right, but “too early”. New sorts of media are proliferating in America. Satellite radio, cable-TV and internet bloggers continue to undermine the legitimacy of the existing set of unduly restrictive ownership rules written when network-TV stations and radio companies dominated scarce broadcasting spectrum, he argues. Who can deny the influence of the blogosphere on America's presidential election last year, or the growing clout of satellite radio? Yet Mr Powell also has a bigger point to make about the *Sturm und Drang* at the FCC under his leadership. And it is in the context of this larger point that his real legacy may lie.

America's telecoms policies are built on a landmark antitrust ruling in 1984 which broke the AT&T monopoly into a long-distance carrier and several local “Baby Bell” operating companies. The authors of the 1996 Telecoms Act continued to pay homage to this local/long-distance distinction. Mr Powell's rulemaking last month marked the FCC's latest attempt to broker a settlement between the industry's two warring halves. In applying the 1996 act, the FCC has sought to make extra distinctions between different forms of transmission (copper telephone wire, cable TV, satellite, wireless) and of content (telephone calls, television, data). But the spread of digital technology is making all such distinctions moot. Cable-TV firms carry telephone and internet traffic over their digital networks. Wireless operators pipe e-mail and stream television broadcasts. Baby Bell telephone companies such as Verizon, meanwhile, are preparing to enter the television market. “Isn't everything broadband internet attached to some sort of appliance or device?” asks Mr Powell.

Moralising, up to a point

Mr Powell is equally irreverent about the way the FCC regulates America's media industry. Even as he attacks indecency over the public airwaves, Mr Powell is the first to admit that his policies lack coherence. As it is not broadcast over the publicly-owned radio spectrum, content on cable TV, satellite radio and the internet escapes the FCC's indecency rules. A true zealot (such as Michael Copps, a Democratic FCC commissioner whose ardour on the indecency issue may have forced Mr Powell's hand) would press to bring these other sorts of broadcasters under the FCC's rules as well. Mr Powell rejects this, sticking pointedly to highlighting the regulatory incongruity.

Someone more concerned about politics might have ducked such uncomfortable realities—as Mr Powell's predecessors did. The local-telecoms competition rules that the FCC wrestled with last month had been rejected no less than three times by the courts before Mr Powell got to them. Despite their ancient provenance (and many legal challenges) the FCC's media rules remained unreformed until Mr Powell took an interest. He has tried to inject a dose of reality into the closed world of Washington policymaking. The result may have been messy and chaotic. But it has also opened minds. Calls are growing louder in Congress for a new telecoms act that recognises the reality of the digital revolution—though not even enthusiasts expect one anytime soon. (Meanwhile, Mr Powell is doing his best to protect new technologies such as VOIP from the old rules.) If Mr Powell's legacy is to accelerate the passage of new legislation, Americans ought to remember him fondly and with respect. The 1996 act barely mentions the internet. It shows.

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Post offices

Pulling the envelope

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Technology and competition are putting huge pressure on the world's postal systems

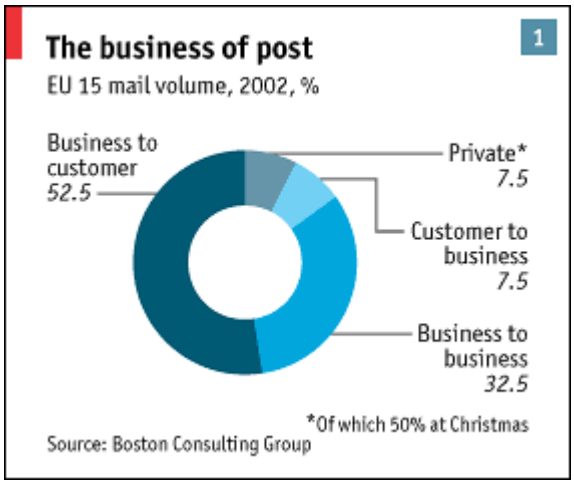
TO GET a sense of the future of postal systems around the world, look no further than a bottle of milk. Last year, TNT Mail, the packet-delivery unit of TPG, the Netherlands' national post office, began using a dairy company to carry packages to people's doorsteps. At a time when the milkman already seems a vestige of a bygone era—and the postman is struggling to avoid the same fate—this might seem an unlikely alliance. But what makes the arrangement particularly revealing is that it is not happening in the Dutch hinterland, but in Britain, where TPG and the lactose-logistics specialists, Express Dairies, are vying to compete against Royal Mail.

This is just one symptom of how the post is changing. Few industries are as inherently global (mail goes to every corner of the planet), yet at the same time as tightly national (operators are still mainly state-run monopolies). Michael Critelli, boss of Pitney Bowes, a mail-equipment maker, says, “The big, all-in-one model works well if you believe that all the mail is about is standardised delivery of a standardised product and high volumes” with no innovation or customisation. But the market is not like that. Pressured by new technologies and by emerging competition, what were once seamless operations that made it meaningful to talk of a postal sector have increasingly fractured into separate activities—parcels, letters, freight, specialised logistics and so on.

Established operators in rich countries are responding by trying to reshape their businesses. It is not easy. Some operators have long relied on cross-subsidies from activities such as banking to help cover other costs, particularly those of delivering letters six days a week under the aegis of a so-called universal service obligation—a national duty to collect and deliver mail for a uniform price no matter where it is posted. Others with strong monopolies have transferred profits from their protected letters franchises to battle in the more competitive parcels business. Now these complicated economic ties are being broken, sometimes by regulators, but also by competitors, which have been growing ever bolder about challenging post offices' monopoly rights. The accepted goal of most big postal systems is that the letter post should be financially self-sufficient.

Increasingly, however, the postal service is being run as a profit-seeking business in which each activity must be economic in its own right.

The postal service that most people come into contact with is only a tiny fraction of the mail, package and freight-delivery operations upon which economies depend. More than 80% of letter mail is from businesses, not individuals (see chart). Of that, over half is monthly bills and statements. (These are slowly moving away from the physical post towards customers' online accounts, which explains the roughly 2% annual drop in mail volumes since 2000 in many countries.) One-quarter of letter volume is junk mail which, alas, is growing.



Meanwhile, parcels and express delivery services have become more important: e-commerce could not function without them. Globalisation has placed greater emphasis on logistics and freight delivery, as companies manage complex supply chains. In short, although what happens at the high-street post office is important, it will be developments in the less visible areas of business mail and other deliveries that will ultimately shape tomorrow's postal systems. “Ten years from now, my bet is that the ‘post' as a word will disappear,” says Isabelle Segni, a specialist in postal reform at the World Bank.

That prospect represents a challenge for governments and postal managers alike. The traditional postal operators play an important role in developed economies, representing roughly 1% of the labour force and about 1% of gross domestic product. Where the market is open to some sort of competition, the postal-services sector indirectly plays an even greater role in the economy because business customers tend to make more use of innovative services such as speciality printing, targeted direct mail, or pre-paid return labels for mail-order goods. National postal systems globally account for over $250 billion in revenue and employ 5m people, 1m fewer than in the early 1990s. In some countries, the post is also one of the biggest financial institutions: Japan's, for instance, is the world's biggest financial institution, with around $3.4 trillion in assets.

Postal operators everywhere are facing the same challenges, but they are responding differently and at different speeds. Essentially they are caught in a pincer movement. From below, new technologies are altering long-established industry standards. From above, market liberalisation is opening the way for new competitors who are free of the expensive infrastructure that shackles the incumbents.

Getting it sorted

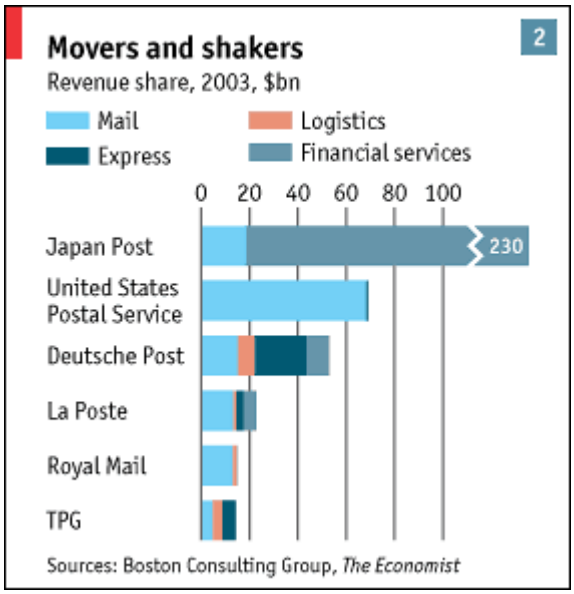
Among the more important technological changes are advances in automated sorting equipment. Today's state-of-the-art machines can read most addresses and then place the mail in the precise order for the letter carrier to deliver door-to-door. Electronic barcodes on the mail allow operators to “track-and-trace” each item, to provide service guarantees of when the mail was sorted and delivered. As this type of cost-saving equipment has become available, new firms have entered postal markets. Andrew Beh of ING Financial Markets estimates that some competitors can operate at half the cost of national posts. New technology improves their work processes, and they also benefit because they lack the strong trade-union culture of incumbents. These are among the reasons why Britain's privately run Business Post Group has been able to compete effectively against Royal Mail.

But perhaps the biggest technological change has been the arrival of “electronic substitution”. This refers to the shift of what was once sent by physical mail to other media. For instance, bulky financial prospectuses can now be posted on the internet (and downloaded and printed at the reader's expense) rather than sent by mail. Postal operators have long been used to fat profits from deliveries of monthly bills, statements, mail-order catalogues and so on. These have begun a gradual shift towards delivery by internet. And although direct marketing and e-commerce fulfilment with parcels is on the rise, it does not compensate for the drop in letter volume because, to the dismay of national operators, these are the two categories that are generally open to competition in places where the market is partially liberalised. The result is that in the very area where post offices might be able to recoup lost letter revenues—namely, parcel delivery—they face the stiffest competition.

Alongside new technologies, postal operators must deal with political pressure to reduce financial losses and accept market liberalisation. In America, which accounts for almost half of the world's letter volume and over a quarter of its postal revenue, the post is constrained from engaging in non-core activities such as banking. Aggressive logistics companies such as UPS and Fedex have become powerful competitors in express mail, parcels and freight delivery. Indeed, the rise to global prominence of such firms is the clearest evidence of the struggle facing big operators. “We have to make money delivering the mail,” says Jack Potter, Postmaster General, who began his postal career as a mail clerk.

That is demanding wrenching changes, as the US Postal Service, which was in crisis before Mr Potter took the top job in 2001, tries to modernise its operations. With some success Mr Potter has overseen swingeing cost cuts and has lobbied to reduce the postal system's pension burden. He argues that it helps that the system is focused only on post, but accepts that without modernisation the government-run system risks becoming irrelevant. Political oversight is onerous: a presidential commission in 2003 called for ongoing change, including more market liberalisation.

In Japan, Junichiro Koizumi has made reforming the national postal operator a major policy goal. Last year, the prime minister unveiled a plan to privatise the post, starting in 2007 by splitting today's monolith into four distinct units: delivery, post-office branches, savings and insurance. But the government has also proposed meddling with elements of the universal service obligation. That brought opprobrium: the post office itself described the idea of reducing service in rural areas as “degrading”.



Some of the biggest changes have been happening in Europe. By the end of this decade, if all goes as planned, there will be more than one postal operator per country, at least in the big four markets—France, Britain, the Netherlands and Germany—that account for around 70% of all mail volume in the European Union and 80% of all parcels. The national post, long the daily face of the state, will no longer be run by the government and may well be partially owned by another company or have publicly traded shares (as is already the case in the Netherlands and Germany). There will be fewer post offices, though many of the things that they offer will probably be available at alternative outlets, such as supermarkets and petrol stations. And the much-vaunted six-day mail delivery may well be reduced to five days a week.

These changes are not happening without a fight. The Postal Directive, issued by the European Commission in 1997 and updated in 2002, laid out a (non-binding) timetable for the full liberalisation of the EU's postal market. Most EU countries have modified their laws and changed the status of the national post from a government department to a corporate entity. But few have treated postal liberalisation as a priority. Nearly all have established national postal regulatory agencies, as required by the directive, but the independence of these is sometimes in doubt.

The French exception

Big countries, notably France, have fought doggedly against the commission's efforts to speed up market opening. In 2003, after bitter wrangling, the legally permissible postal monopoly in the EU on letters dropped from 350 grams to 100 grams, which opened up 11% of the letters business in the EU to competition. In 2006, the monopoly on weight is set to drop again, to 50 grams, opening up a further 7% of mail. However, roughly three-quarters of letters weigh less than 50 grams, which explains why incumbents have shed only a small share of the overall letters market.

Under the timetable set by the directive, in 2007 the EU's member countries will discuss opening their markets completely by 2009. Norway, not an EU member, plans to open its market in 2007; Sweden, Finland and Estonia already are open. But few believe that many others will be, or will want to be, ready. Of the countries undergoing liberalisation, only Germany, Britain and the Netherlands have agreed to open their markets fully before 2009.

France stands somewhat apart. La Poste says it will meet the directive's recommended 2009 date. However, analysts think it is more likely that La Poste will try to keep its domestic stranglehold for

as long as it can, meanwhile entering markets abroad, as France's other utilities have done in the water and electricity sectors. The company rejects this criticism.

In fact, with the exception of Britain's Royal Mail, which has been preoccupied with domestic restructuring to reverse huge losses, Europe's big postal operators have responded to the threat of market liberalisation by seeking to expand into new businesses and new markets. Between 1998 and June 2004, they have acquired or franchised more than 120 companies, in activities as diverse as mail preparation, express-delivery, freight forwarding and intra-city unaddressed mail delivery. In some instances, the logic has been to take on greater volumes, thereby extracting better value from the sunk costs represented by existing infrastructure, such as staff, sorting equipment and delivery vehicles.

Empires of the mail

The Dutch and Germans have been both the most aggressive and the most global in their strategies. In the Netherlands, TPG acquired the express operator TNT in 1996, and expanded into freight delivery and contract logistics in Europe and Asia. In Germany, Deutsche Post embarked on the most grandiose acquisition drive, purchasing DHL, an express firm, between 1998 and 2002, among numerous other assets, mostly in Europe but also in Asia. Since postal reform began in 1990, the portion of Deutsche Post's earnings made overseas has risen from 2% to 50%.

Both companies were relatively early in their efforts to restructure their core businesses. TPG began in 1993; Deutsche Post in 1991, when it needed to integrate the postal systems inherited from formerly communist East Germany. Both operators have also floated on the stock exchange, which gave them shares that they could use as currency for their acquisitions.

By contrast, France's La Poste says it seeks to be a key European player, but not a global one, although it has acquired some companies and formed an alliance with FedEx, America's second-largest logistics firm after UPS. UPS is thought to want to enter the European market for bulk business mail, taking on the national post offices—but only after the letters market has been further opened to competition. La Poste, along with TPG and Deutsche Post, is considering buying a minority stake in Belgium's La Poste when shares are offered for sale; TPG and Deutsche Post are already vying to acquire a stake in Post Danmark when the Danish government sells 25% later this year.

The shape of domestic deregulation differs in each of the four countries, and has been an area of controversy. Germany has a tariff structure that discourages competitors from consolidating mail volumes (this is currently being challenged before competition authorities). The Netherlands allows companies to place pre-sorted mail into TPG's network and also allows, but does not mandate, discounts for large-volume customers. Britain retains the Royal Mail's monopoly on the last-mile delivery for daily mail volumes under 4,000 items (Express Dairies got its delivery licence because its volume is above the monopoly threshold). Alternatively, rivals may hand over mail to the national operator for final delivery, akin to the last-mile connection that gives new entrants access to existing telecoms infrastructure. France has not yet specified the rules for market deregulation; indeed, just this week the legislature began what will be a lengthy debate on the shape of new laws, which prompted postal workers to go on strike.

Small wonder that there have been complaints that these domestic responses amount to anti-competitive behaviour. There have been some clear infractions. Deutsche Post, for example, was fined by the European Commission in 2001 for abusing its monopoly by allowing its global parcels business to receive big subsidies from its letters franchise. It was forced to ring-fence its parcels business.

There is also a view that the large number of acquisitions made by the big operators has, ironically, caused the postal sector to become more than ever dominated by states. A report prepared for the commission last year by WIK-Consult, a consultancy, warned that there is some risk “of ‘governmentalising’ the private sector instead of privatising the public sector.”

In combination, these changes are challenging the post's identity and legacy in ways that are only just starting to become apparent. One problem is managing labour relations, for with modernisation comes big job losses. In countries that have undergone reform and liberalisation, such as Sweden, as much as 25% of postal jobs have disappeared. Ten years after its post became a corporation in 1987, New Zealand's system had reduced its staff by 40%, but the employees handled 20% more business. Moreover, the price of a letter remained constant in nominal terms, representing a big price reduction in real terms.

Checks on the post

Also controversial are branch closures. Even before deregulatory reforms were begun, between 1998 and 2002 post-office branches were closed at an average rate of about 2.4% per year across Europe. Historically, branches have acted as the central nervous system of many communities, used to receive social security and pensions, tax forms and the like. People fight to keep their local outlets.

What is clear is that postal operators will have to continue to expand into new services. Some posts have offered certified e-mail using encryption techniques to time-stamp electronic communications, though with little success to date. This might get a boost now that there are plans for the Universal Postal Union, an international treaty organisation more than a century old that co-ordinates global postal activities, to manage a specialised internet address extension, .post. Most posts are looking at expanding direct-mail operations and selling “hybrid mail”, whereby large mailers such as financial institutions or utilities merely provide data to the post, which takes responsibility for printing the documents and delivering them.

Some plans are more radical. This month, Britain's Royal Mail said it would start to sell telephone services to compete with BT, more than two decades after the post and telecoms were split in preparation for privatisation of the latter. America's postal service is forging new programmes such as allowing customers to book a time for a parcel delivery or pick-up and providing customers with delivery guarantees even for regular first-class mail.

Whether such efforts will succeed remains to be seen. As competition increases so will pressure on incumbent operators to become even leaner and fitter. As broadband internet and mobile phones become ever more ubiquitous, as electronic substitution grows and as demand increases for flexible deliveries and differential pricing, the justification for maintaining the universal service obligation and the monopoly that accompanies it will diminish, and it will come to be seen as an expensive anachronism. But, like other changes in the industry, and with so much employment, national prestige and other interests at stake, this may happen by slow coach rather than post haste. Politics, if nothing else, will probably see to that.

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Development

Recasting the case for aid

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A new report for the UN says that aid can work, and demands lots more of it

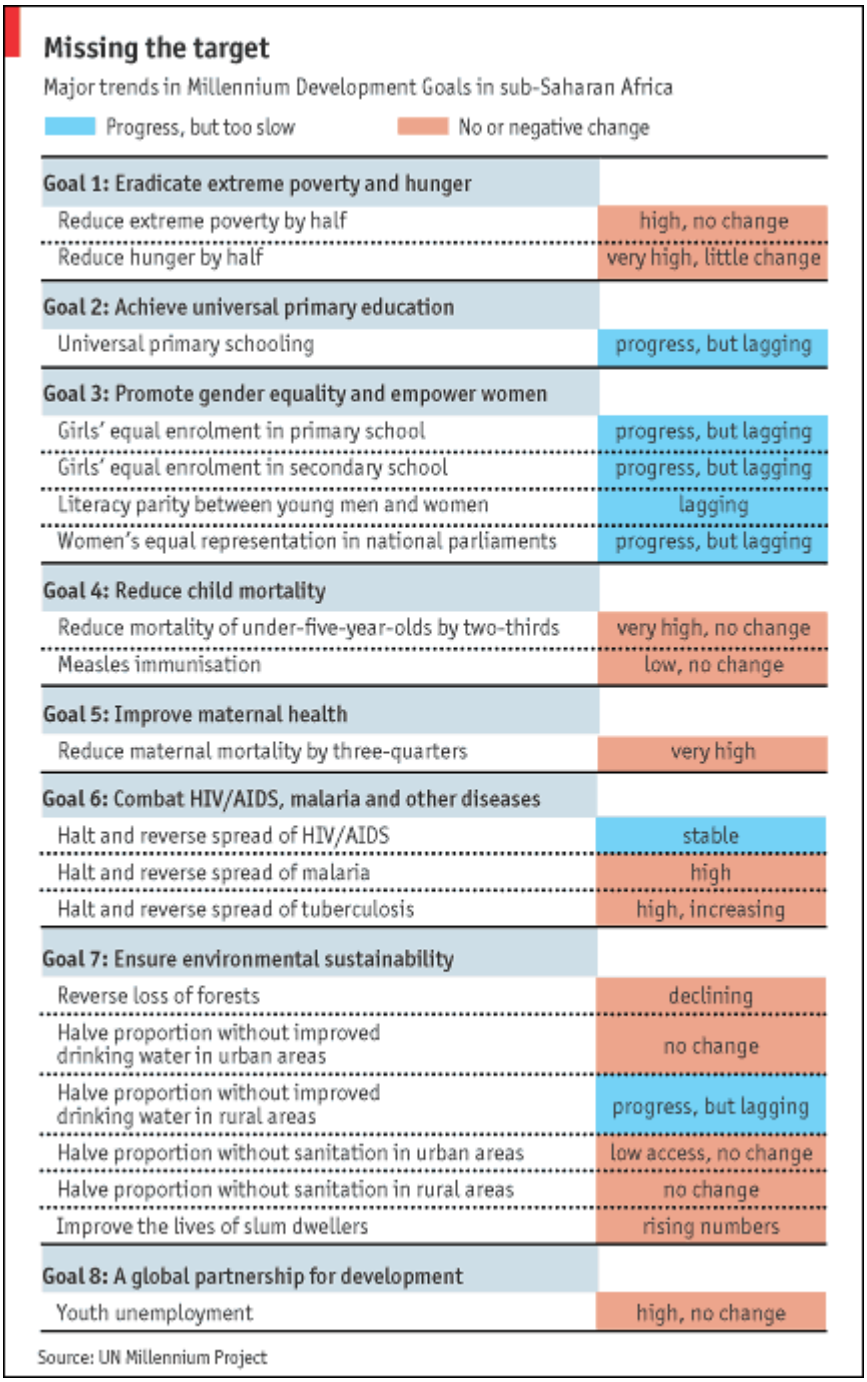
NOBODY ever accused Jeffrey Sachs of lacking purpose, thinking small or keeping his ideas to himself. The United Nations shrewdly chose the Columbia University professor to lead a team of "more than 250 experts" (they must have lost count) charged with producing a grand new proposal on development. This week Mr Sachs and his army delivered.

"Investing in Development: A Practical Plan to Achieve the Millennium Development Goals" is, in many ways, an impressive—one might say heroic— piece of work. The document in full runs to ten supporting volumes and more than 3,000 pages (this writer lost count). The overview paper is packed with high-octane analysis and recommendations, no waffle, not a sentence wasted. Its aim is no less than to dispel the prevailing pessimism on aid—a deeply entrenched attitude, based on years of disappointment—and to mobilise hundreds of billions of dollars in new help for the developing world.

In this, it might succeed. Whether it deserves to is another question.

The Millennium Development Goals (MDGs) were adopted at a United Nations summit in 2000. They have already begun to shape the policies, as well as the rhetoric, of institutions such as the World Bank and the International Monetary Fund. For the first time, in thinking about development, governments are having to frame their policies around specific intended outcomes rather than policy inputs. It is a bigger change than you might suppose. Because of the MDGs, allocations of aid, or targets for budget deficits or other policy settings, are no longer front and centre. These and other inputs are increasingly being tested against the final goals. The question now—and it is the right question—is what policy inputs will be required to hit the targets.

For the least successful regions of the world, the targets are extremely ambitious: halve the proportion of people living in extreme poverty (ie, on less than a dollar a day) between 1990 and 2015; achieve universal primary education by 2015; reduce the under-five mortality rate by two-thirds; and more. Altogether the MDGs encompass 18 targets arranged under eight broad headings. The table below shows how one region, sub-Saharan Africa, is doing so far (measured against a smaller set of quantitative, as opposed to qualitative, targets).


Missing the target
Major trends in Millennium Development Goals in sub-Saharan Africa
Progress, but too slow
No or negative change
Goal 1: Eradicate extreme poverty and hunger
Reduce extreme poverty by half
high, no change
Reduce hunger by half
very high, little change
Goal 2: Achieve universal primary education
Universal primary schooling
progress, but lagging
Goal 3: Promote gender equality and empower women
Girls' equal enrolment in primary school
progress, but lagging
Girls' equal enrolment in secondary school
progress, but lagging
Literacy parity between young men and women
lagging
Women's equal representation in national parliaments
progress, but lagging
Goal 4: Reduce child mortality
Reduce mortality of under-five-year-olds by two-thirds
very high, no change
Measles immunisation
low, no change
Goal 5: Improve maternal health
Reduce maternal mortality by three-quarters
very high
Goal 6: Combat HIV/AIDS, malaria and other diseases
Halt and reverse spread of HIV/AIDS
stable
Halt and reverse spread of malaria
high
Halt and reverse spread of tuberculosis
high, increasing
Goal 7: Ensure environmental sustainability
Reverse loss of forests
declining
Halve proportion without improved drinking water in urban areas
no change
Halve proportion without improved drinking water in rural areas
progress, but lagging
Halve proportion without sanitation in urban areas
low access, no change
Halve proportion without sanitation in rural areas
no change
Improve the lives of slum dwellers
rising numbers
Goal 8: A global partnership for development
Youth unemployment
high, no change
Source: UN Millennium Project

Plainly, it is doing very badly. Unlike some other regions, notably East Asia and the former Soviet empire, sub-Saharan Africa has met or is on track to meet not a single MDG. Even where it is making some progress (the blue panels), the change is too slow to bring the MDG within reach. Mr Sachs boldly claims that even sub-Saharan Africa can achieve the MDGs by 2015—but only with a huge new commitment of aid, designed and delivered in new ways. The document published this week spells out the amounts that Mr Sachs and his team believe will be required, not just for Africa but for all of the developing world, and the methods to be used.

Given what is at stake, Mr Sachs's passion and ambition are entirely warranted—but does the approach he advocates make sense? To persuade rich-country governments to give more, he first reminds them that they have been promising for the past 35 years to spend 0.7% of GDP on aid.

Very few countries have kept that promise, or even come close. But there is a reason for this: often in the past aid has failed, or at least has been understood to fail. The report devotes a good deal of attention to arguing that this perception is wrong.

Many of the studies which found that aid fails were flawed, says Mr Sachs. For instance, if you simply compare, country by country, growth rates and aid volumes, you will find that aid and slow growth are correlated. But this is because a lot of aid is given to countries recovering from natural disasters, famines or other humanitarian emergencies. You would expect countries battered down by such calamities to grow more slowly than the average, so the correlation between aid and slow growth is false. Looking only at development aid, the report argues, you find that aid works: it spurs growth.

Also, the report says that a lot of aid in the past has been badly designed: too much reliance on short-term-funding, for instance, causing projects to fail because recurrent expenses cannot be covered. Well-designed aid, delivered in a sustained way to countries with reasonably good governments, does what it is supposed to.

That good-government precondition is crucial, however, and causes the team some difficulty. The development literature emphasises the importance of sound institutions and clean, effective government. Countries with those things can put aid to good use. The trouble is, countries with those things tend to make progress unassisted. The poorest countries, including the basket-cases of sub-Saharan Africa, are the most deserving by the test of need, but tend to be the worst governed.

Potentially rich

The report challenges this thinking in two ways. First, it insists that some of the world's poorest countries are in fact pretty well-governed: they are poor for other reasons, to do with geography, history, incidence of disease, and so forth. Identify the good governments, the thinking goes, and give them aid “at scale”.

The table below suggests that standards of governance in sub-Saharan Africa are indeed far from uniform. It shows countries and their governance ratings according to a variety of measures—as judged by peers in the African Union; by the IMF and World Bank as part of the Heavily Indebted Poor Countries initiative; by the American government for the purposes of its Millennium Challenge scheme (well-governed countries can qualify for assistance or, in the case of “threshold countries”, be deemed on track to qualify); according to whether countries have prepared a recognised poverty-reduction strategy paper; and finally as judged by the World Bank in a study of countries' capacity to absorb aid. Ghana, Mozambique, Senegal, Tanzania and Uganda score well. Countries such as these, says the report, should be fast-tracked for more aid, and plenty of it.

Too many blanks on the scoresheet

Potential candidates for MDG* fast-tracking in sub-Saharan Africa

	Governance qualification					
			Millennium Challenge Corporation			
Country	African Peer Review Mechanism	HIPC completion point	*Qualifier*	*Threshold*	Poverty Reduction Strategy Paper	World Bank Absorptive Capacity Study
Angola	✓					
Benin	✓	✓	✓		✓	✓
Burkina Faso	✓	✓		✓	✓	✓
Cameroon	✓				✓	
Cape Verde			✓			
Chad					✓	
Congo-Brazzaville	✓					
Djibouti					✓	
Ethiopia	✓	✓			✓	✓
Gabon	✓					
Gambia					✓	
Ghana	✓	✓	✓		✓	
Guinea					✓	
Kenya	✓			✓		
Lesotho	✓		✓			
Madagascar		✓	✓		✓	✓
Malawi	✓			✓	✓	
Mali	✓	✓	✓		✓	✓
Mauritania		✓			✓	✓
Mozambique	✓	✓	✓		✓	✓
Niger		✓			✓	
Nigeria	✓					
Rwanda	✓				✓	
São Tomé and Príncipe				✓		
Senegal	✓	✓	✓		✓	
Sierra Leone	✓					
South Africa	✓					
Tanzania	✓	✓		✓	✓	✓
Uganda	✓	✓		✓	✓	✓
Zambia				✓	✓	

Source: UN Millennium Project

*Millennium Development Goals

Unfortunately, and perhaps as a matter of political necessity, the report wants lots of aid to go to the other countries too. Even countries such as Chad and Nigeria, regarded by Transparency International as among the most corrupt in the world, are described as “potentially well-governed”—much as Mike Tyson is potentially well-behaved—and deserving of consideration for fast-tracking. The report draws the line only at cases as egregious as Zimbabwe, Myanmar and North Korea: not as bravely discriminating as one might wish.

The report has a second way of dealing with lack of good governance: it argues that aid can be spent on remedying this. But that may be wishful thinking. The problem with aid to bad governments is that it can help to keep them in place. Donors have tried before to invest in improved governance. The record is not good.

The report has recommendations by the dozen on how aid should be patterned and delivered. It argues that the development needs of countries vary a great deal from case to case: strategies need to be carefully tailored, with policies designed and "owned" by the country itself. Well and good. But many would question the very idea of a top-down development strategy. William Easterly, for instance, formerly of the World Bank, now at New York University, author of "The Elusive Quest for Growth" and a leading authority on development, says he is sceptical. He regards the proliferation of goals and recommendations in the report as hugely over-ambitious, as tending towards a kind of international central planning, and as placing far too great a strain on the puny resources of "global bureaucrats and dysfunctional administrations".

Mr Easterly makes a further point, echoed by others this week. The report advances great, not to say extravagant, claims about what aid can achieve, even in regions such as sub-Saharan Africa, over the next ten years. Even if Mr Sachs succeeds in his chief purpose of inspiring big new commitments of aid from the West, Africa is very likely to fail by the daunting standards he has set in this report. Over the longer term, a more sober and guarded assessment of what can be achieved—one less inclined to end once more in disappointment—might better serve the cause of development. Driven and effective, yes: sober and guarded, Mr Sachs is not.

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World trade

Free trade's best friend

Jan 20th 2005
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The WTO is worth boosting

FOR anti-globalisation activists, the World Trade Organisation (WTO) embodies the global economic integration they abhor. For insular lawmakers, notably in Washington, DC, the Geneva-based institution is a secretive, unelected bureaucracy that infringes national sovereignty. Even advocates of free trade have their doubts about the WTO's usefulness: after all, the Doha round of negotiations is hardly roaring ahead.

All these doubters would do well to read a new report on the future of the WTO by eight “wise men” led by Peter Sutherland, the trade body's first director-general. The report not only offers the rousing defence of multilateral trade liberalisation you might expect, but also makes practical, if unglamorous, suggestions about how the WTO could work better.

Mr Sutherland's group criticises the recent fashion for bilateral and regional trade agreements. More than half of the 300 deals notified to the WTO were created in the past decade; many more are being negotiated. The panel is right to be sceptical because such agreements undermine the most basic principle of multilateral trade and of the WTO: non-discrimination. Members of the trade body are supposed to extend to all other members their most favourable trade terms—the lowest tariffs and so forth. By giving preferential access to some countries, bilateral and regional deals make a mockery of this. The report says that non-discrimination has become the exception not the rule. To counter the trend, the wise men urge rich countries to set a date by which all their tariffs would be cut to zero.

Multilateral negotiations would surely be more popular if they could be shown to work. But the WTO operates by consensus, in effect giving each of its 148 members a veto. Many trade experts reckon that this is too unwieldy. The report does not propose junking consensus, but suggests that any country blocking a measure that otherwise has broad support should have to declare, in writing, that the matter was of “vital national interest”.

Successful negotiations, argue the wise men, also depend on greater political commitment. They believe that an annual WTO ministerial meeting, a trade summit with heads of state every five years and more frequent visits to Geneva by national politicians would help. Well, it might. But it is unlikely to be enough.

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City regulation

Mud on both faces

Jan 20th 2005
From The Economist print edition

Britain's FSA and the firms it regulates need to clean up their act

Prosser wasn't fully covered

LEGAL & GENERAL (L&G), a big British insurer, has been quick to declare victory over its regulator. On January 18th, the independent tribunal that hears appeals against enforcement decisions by the Financial Services Authority cleared the company of the widespread mis-selling of mortgage-linked endowment policies that the FSA had punished with a £1.1m ($1.9m) fine. But mis-selling on any scale is bad; and the Financial Services and Markets Tribunal did find L&G guilty of some.

The case is one of many thrown up by the bear market in shares in Britain from late 1999 to early 2003. During the years of heady share-price growth that preceded it, individuals were inspired to buy endowment policies intended to pay off their mortgages at maturity. Many were not sufficiently warned that share prices fall as well as rise, and that investment performance might not be good enough to pay off the debt. Several large firms have been fined for mis-selling endowments, although L&G is the only one to have challenged the FSA. David Prosser, L&G's boss, took a risk, and although his company did not escape unscathed, he has reason to be pleased with the result.

The regulators emerge with the blacker eye in part because this is not their only recent mishap. On December 24th, the FSA announced details of a settlement in which the sellers of “split-capital” investment trusts (closed-end funds with several classes of shares) agreed to pay £194m to investors who had not been properly warned of the risks and management methods. As the regulators had indicated earlier that they were seeking some £350m, they were publicly bashed for not getting it. This week, the revelation that the Bank of England was boosting the number of staff devoted to sniffing out bad practices in the City suggested that it did not think the FSA was doing all that it could.

At issue is whether the FSA, which regulates the most sophisticated financial markets in Europe, is up to the job. This matters, not least because the European Union is moving quickly towards defining the shape of pan-European financial regulation and this, once set, will be hard to change. It matters too because the FSA has recently added to its enormous portfolio two more whoppers: mortgages and non-life insurance.

In its roughly five-year existence the FSA has achieved an enormous amount just by bringing Britain's formerly fragmented system of financial regulation under a single roof. But there are flaws, and the L&G case has highlighted them.

Procedurally, in trying to provide fairly swift justice the FSA failed to do its homework. It relied too heavily on a small sample of transactions, reviewed by PricewaterhouseCoopers, an accounting firm, and hardened suggestions of potential mis-selling into proven breaches. The tribunal roasted the regulators for these errors.

Structurally, the system is seen to lack fairness. The FSA's enforcement arm makes recommendations to its Regulatory Decisions Committee (RDC), which is staffed by outsiders but chaired by an FSA employee. The RDC in turn sets any penalties. L&G is only one defendant to protest that it cannot get a fair hearing. Sir Philip Watts, former chairman of Royal Dutch/Shell, is another. His appeal to the tribunal is pending.

The good news is that the FSA is likely to learn from all this. John Tiner, its chief executive, says that the decision provides a “positive stimulus” to look at where the FSA can improve its procedures, “to do what we probably should have done anyway”. A change of faces will help. The RDC is to have a new chairman—Tim Herrington, now a partner in Clifford Chance, a law firm. Andrew Proctor, the FSA's head of enforcement, left two weeks ago.

This fresh look may include using more often the FSA's statutory power to require firms themselves to appoint outside experts, with a duty of care to both company and regulator, to trawl through their records and identify wrongdoing. The FSA claims that L&G was unhelpful in providing information; the tribunal says the regulator should have been more aggressive.

Back on the other side of the street, L&G too has some housekeeping to do. The tribunal found that its procedures were patchy and that it did not do enough to ensure that buyers were well advised. Interestingly, though L&G challenged the fine, like other insurers it has paid compensation to some customers.

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The London Stock Exchange

Fighting talk

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From The Economist print edition

The LSE's two suitors spark a debate over market structure

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AFP

Buying the LSE? A two-pipe problem

ACCORDING to an online betting exchange, the odds against the London Stock Exchange (LSE) remaining independent have widened to eight to one. Deutsche Börse, a German exchange group, made a takeover proposal in December; Euronext, the product of mergers among the Amsterdam, Brussels, Lisbon and Paris exchanges, was quick to follow. Neither suitor has yet made a formal bid, but the LSE is in talks with both. The online bookies make Euronext the slight favourite.

Not all the would-be buyers' shareholders are happy. TCI, a hedge fund which says it has bought more than 5% of Deutsche Börse's stock, has called for the German exchange to buy back shares rather than overpay for the LSE. This is unlikely to worry Werner Seifert, Deutsche Börse's pipe-smoking, organ-playing chief executive: TCI would need to have owned its stake for three months to call a shareholders' vote. However, TCI's needling has exposed a weakness in Deutsche Börse's corporate governance. Its supervisory board, drawn mainly from the big banks that controlled it before its flotation in 2001, can hardly be said to represent the current, wider ownership. A small minority of Euronext shareholders also fears that their company's management might pay too much.

But many believe that the future ownership and governance of the London Stock Exchange may be too important to be left to shareholders alone, and that regulators will have to get involved. “This is about market organisation,” says a protagonist in the talks. Broadly there are two camps: those who argue that stock exchanges should not own or control entities that clear and settle trades, and those who argue that ownership does not matter, as long as each stage is open to competition.

Deutsche Börse, which owns clearing and settlement operations, is often seen as the more monopolistic, and Euronext, which does not, as the more customer-friendly. In fact both groups' clearing and settlement arrangements leave room for oligopolistic pricing. For example, some bigger members of the exchanges carry out internal or block trades without revealing prices. They also benefit most from offsetting buy and sell orders with a central counterparty, without obviously passing their savings on to customers.

Developments at the LSE, too, have not always been for the general good. Indeed, the

introduction of a central counterparty has increased trading costs for some of the exchange's smaller members. Apcims, a British association of brokers and investors, has told the LSE that the merger must produce cost reductions in this area.

So national and European regulators will have to be keen-eyed, no matter who buys the LSE. The European Commission is well behind schedule in drafting a clearing and settlement directive that might have helped in this merger battle. The papers published so far avoid favouring any particular market structure. A group of clearing and settlement experts is not expected to give the commission its analysis of the regulatory implications of different market arrangements until September.

As a consequence, no one is sure what the future regulation of Europe's securities exchanges, clearing houses and central securities depositories will look like. The arguments being deployed in the fight for the LSE, both by the prospective purchasers and by other interested groups, are to some extent intended to push the market structure and its regulation one way or the other. The outcome of this debate will set the rules for what some see as the final stage. Whoever wins the LSE, it may only be a matter of time—five years, say some—before the three main exchange groups have merged into one.

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Spanish banks

Trials and tribulations

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The bosses of Spain's two biggest banks are under fire

LAST year was a good one for Santander Central Hispano (SCH) and Banco Bilbao Vizcaya Argentaria (BBVA). Spain's two biggest banks did well at home and in Latin America, and SCH bought Britain's Abbey, in Europe's biggest cross-border bank merger. This year is starting less well, in particular for the two banks' bosses.

Emilio Botín, chairman of SCH, is due to stand trial twice. In the first trial, which is due to open next week, Mr Botín is accused of misappropriating funds by giving severance packages totalling €164m ($145m) to two former executives of Banco Central Hispano Americano, which merged with Mr Botín's Banco Santander in 1999. The deal ended a bitter power-struggle and made Mr Botín sole master of the newly created SCH. The date of the second trial, in which he is accused of falsifying documents to help clients to evade taxes in the late 1980s, has not been set. Mr Botín denies all charges in both cases.

Unusually, Spain allows private criminal prosecutions. The two facing Mr Botín are among 26 brought against him or his bank by an association of shareholders led by one Rafael Pérez Escolar. They are set to be the first to come to court. Spain's state prosecutor and attorney-general have tried to have them dismissed, as others in the series have been. Mr Escolar was an executive of Banco Español de Crédito (Banesto), a retail bank which collapsed in 1994 before being bought by Banco Santander. He was jailed for his part in Banesto's troubles.

Despite his legal headaches, Mr Botín has done a good job. When he took over from his father in 1986, Banco Santander was a small regional bank. Its takeovers have turned it into the euro area's biggest by market capitalisation.

Mr Botín's SCH is now working hard to make its latest purchase, of Abbey, pay. To replicate its sales-oriented model in Britain, it will cut back-office jobs and train Abbey staff to become better salespeople. SCH's executives were surprised that a lot of Abbey's products were sold by independent advisers, not by bank staff. Mr Botín predicts that SCH's net income in 2004 will have exceeded €3 billion, up by 15% from 2003.

Francisco González Rodríguez, chairman of BBVA, is the probable target of a construction company's plan to build a stake in his bank. Mr González's tormentor, Sacyr Vallehermoso, says it wants to become BBVA's biggest shareholder—not a tall order, given that no one now has a stake of more than 1%. Luis del Rivero, Sacyr's boss, claims he can buy 3.1% of BBVA's shares and control even more through alliances with other investors. To be entitled to a board seat, a shareholder must own at least 6.25%.

Sacyr has allies. The bank is based in the Basque country; and members of Basque families have held grudges against Mr González since he sacked them from the bank's board after a scandal

over secret offshore accounts in 2002. Socialist politicians dislike him because of his close ties to the previous, conservative government. Recent comments by Pedro Solbes, the finance minister, suggest that the government favours Sacyr. Nevertheless, Mr González's detractors are unlikely to muster the strength to oust him.

Like Mr Botín, Mr González has been winning high marks from analysts. BBVA's profits are expected to have risen by one-fifth or more in 2004. The bank, which focuses on Spain and Mexico, made three clever acquisitions last year: a buy-out of minority shareholders of Bancomer, a big Mexican bank; a takeover of Laredo National, a Texan bank; and the purchase of Hipotecaria Nacional, a Mexican mortgage company. Davide Serra, an analyst at Morgan Stanley, reckons that all three will increase earnings per share.

Both Mr Botín and Mr González would like to buy abroad again, especially in Italy. SCH fancies Sanpaolo IMI, Italy's third-biggest bank by assets, of which it owns 8.6%. BBVA has been trying to buy Banca Nazionale del Lavoro, the number six, for four years. It already owns 15%, and controls almost one-third through a pact with two other shareholders. Both Spanish suitors are waiting for Antonio Fazio, the governor of the Bank of Italy, to drop his opposition to takeovers by foreigners. A hostile takeover is not the way to go about acquiring Sanpaolo IMI, says a senior executive at SCH. Despite their tribulations, Mr Botín and Mr González will be keen to pounce should they get the chance to buy.

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Economics and gaming

A model economy

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Should links between real and virtual economies be encouraged or banned?

WarCraft

FOR players of online role-playing games such as “EverQuest” and “World of Warcraft”, battling monsters and amassing treasure is an enjoyable form of escapism. Yet the real and virtual worlds are increasingly intertwined. For many years, game items such as swords or gold have been traded online: virtual objects are sold for real money to the tune of at least $100m a year. But the links between real and virtual economies are now becoming far more elaborate.

Last month, a “Project Entropia” player paid the game's creators $26,500 for an island in the game's virtual world. (He hopes to recoup the money through mining and selling plots to other players.) This month, an “Ultima Online” player set up a scheme to let players donate items and currency to raise money for tsunami relief. Currency exchanges even allow gamers to move funds from one game to another.

Not everyone approves: some games ban the sale of game items, a few encourage it, but most turn a blind eye. But the sale of the “Project Entropia” island, and the popularity of “World of Warcraft”, a game launched in November which bans the sale of in-game items, highlight an emerging split, says Edward Castronova, an expert on virtual economies at Indiana University. “Project Entropia” and its sort are intended to be realistic alternative realities, often with a strong libertarian and free-trade bent. “World of Warcraft” and other similar games, in contrast, are fantasies with a strong sense of fair play in which status must be earned as part of a rags-to-riches storyline—so trade in game items is deemed to be against the rules.

Such bans are impossible to enforce. But “World of Warcraft” is designed to make trading less appealing, in two ways. The first is by improving the game design. If the early stages of a game

are tedious, players are more inclined to skip them by buying rather than earning in-game items. “World of Warcraft” is fun right from the start, which seems to have reduced demand for in-game items on eBay. Trading can also be a symptom of mismanagement of the in-game economy. Inflation is rampant in most games, due to the convention that killing a monster yields a monetary reward: rising prices then fuel real-world trading. But newer games have more control over the money supply, which seems to reduce such trading.

Normally, this newspaper's devotion to free trade is unwavering. Yet curbing the trade of in-game items is defensible, since game economies are run to maximise fun, not efficiency. While writing his forthcoming book, “Synthetic Worlds”, Mr Castronova has been pondering whether real economies could be run for fun too. “Wouldn't that tip the economics texts on their heads?” he muses.

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Economics focus

Yuan step at a time

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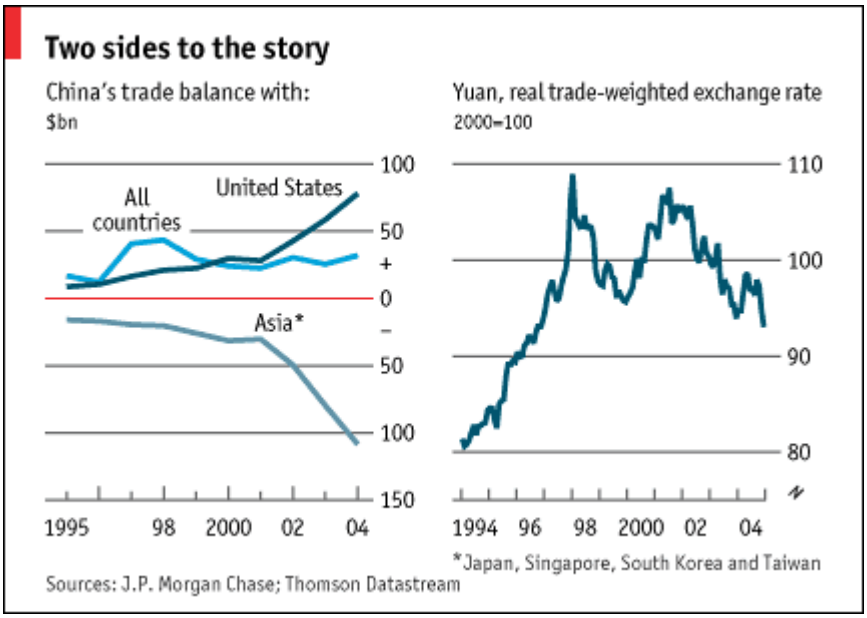
The case for a big revaluation of the Chinese currency is weaker than commonly claimed

MANY policymakers and economists argue that the Chinese yuan, pegged for a decade at 8.28 to the dollar, is grossly undervalued, and that a revaluation is essential to reduce America's huge current-account deficit. The issue is likely to be high on the agenda at the next G7 meeting of finance ministers and central bankers on February 4th and 5th, to which China has been invited. Figures last week, showing a further widening of America's trade deficit and a big increase in China's surplus, have surely increased the pressure on China.

However, in a new paper, “To Be a Rock and Not to Roll”, Stephen King, the chief economist of HSBC bank, exposes several myths behind the conventional arguments for a revaluation of the yuan. The first is that China's large and growing trade surplus with America proves that the yuan is undervalued. China's surplus with America is offset by a deficit with other Asian countries (see left-hand chart), from which it imports capital equipment and components. As a result, China's overall trade surplus was a modest $32 billion last year, smaller than in the late 1990s and peanuts compared with America's trade deficit of over $600 billion. Nor does the extraordinarily rapid growth in Chinese exports prove that its currency is too cheap: imports have also been rising rapidly.



But what about the huge increase in China's foreign-exchange reserves, which jumped by almost

$100 billion in the fourth quarter of last year? To prevent the yuan rising against the dollar, the People's Bank of China is being forced to buy vast amounts of American Treasury securities. Surely, that proves that the yuan is being held below its market rate? Not necessarily. Much of the increase in reserves reflects inflows of short-term capital, from investors taking advantage of higher interest rates in China or speculating on a revaluation. In the long term, if China scrapped its controls on capital outflows, the yuan might well fall as Chinese households diversified into foreign assets.

It is true that because of its peg to the dollar, the yuan's real trade-weighted exchange rate (adjusted for inflation differences with other countries) has fallen by 13% since 2001. But on a longer view the Chinese currency looks less cheap. Between 1994 and 2001, it gained 30%, dragged up by a rising dollar (see right-hand chart). Those who accuse the Chinese of pursuing a cheap-yuan policy conveniently forget that during the East Asian crisis China let pass the chance to devalue its currency in line with most of its neighbours.

Perhaps the biggest myth of all, says Mr King, is that the yuan's value is the only stumbling block to reducing America's current-account deficit. China accounts for less than 10% of America's total trade so a 10% revaluation of the yuan—as much as might be reasonably expected—would reduce the dollar's trade-weighted value by only 1%. If it were matched by a 10% rise in all other Asian currencies, then the dollar's trade-weighted index would fall by 3.7%. But even that is small compared with the dollar's decline of 16% since early 2002, let alone with what would be needed to cut America's current-account deficit to a sustainable level. Assuming no other policy changes, HSBC estimates that the dollar needs to fall by a further 30% to reduce the deficit to 2-3% of GDP.

Another reason why any plausible revaluation of the yuan would do little to reduce America's trade deficit is that China's exports have a high import content, which limits the impact of exchange-rate movements on export prices. For example, the Chinese value-added (in parts and labour) in a mobile phone exported to America might be only 15% of its price. So a 10% revaluation would raise its price in dollars by only 1.5%.

A lot of hot air

In addition to claims that “China is stealing our jobs”, another popular argument for revaluing the yuan is that the Chinese economy is overheating, because a fixed exchange rate forces the country's authorities to run an overly lax monetary policy. Rising foreign-exchange reserves boost the money supply, causing higher inflation and excessive bank lending. A rise in the exchange rate, it is argued, would give the central bank proper monetary control. The snag is that a small revaluation is likely to increase expectations of another future appreciation, attracting yet more speculative capital and swelling foreign reserves further. To discourage speculation would require a much larger revaluation than the Chinese are likely to accept.

Some economists argue that as China gets richer it needs to allow its real exchange rate to rise, in order to reap the full gains of its economic success. A stronger exchange rate would boost consumers' purchasing power, by allowing them to buy more foreign goods. At present, growth is too dependent on exports, while consumption is weak. However, an increase in the real exchange rate need not require a rise in the nominal rate. Instead it could come about through higher inflation than in countries abroad—as occurred in Japan in the 1950s and 1960s.

Mr King concludes that the biggest problem for China's current exchange-rate policy is not the yuan itself but the performance of the dollar. A fixed exchange rate is supposed to provide stability. So if the dollar continues to fall, China may wish to switch to a more reliable store of value and unit of account. One alternative is a currency basket reflecting the pattern of its trade.

China already trades more with the European Union and Japan than with America.

The real blame for America's current-account deficit lies with its lack of saving, not the Chinese yuan. Last year, Li Ruogu, the deputy governor of the People's Bank of China, warned the United States not to blame other countries for its economic difficulties. He said that foreign pressure would not force China to move faster to free its exchange rate. It would indeed be ironic if a change in China's exchange-rate policy came not as a result of American pressure, but from China's own disillusion with the dollar as an international reserve currency.

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Human evolution

Games people play

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Kobal

The co-operative and the selfish are equally successful at getting what they want

MANY people, it is said, regard life as a game. Increasingly, both biologists and economists are tending to agree with them. Game theory, a branch of mathematics developed in the 1940s and 1950s by John von Neumann and John Nash, has proved a useful theoretical tool in the study of the behaviour of animals, both human and non-human.

An important part of game theory is to look for competitive strategies that are unbeatable in the context of the fact that everyone else is also looking for them. Sometimes these strategies involve co-operation, sometimes not. Sometimes the “game” will result in everybody playing the same way. Sometimes they will need to behave differently from one another.

But there has been a crucial difference in the approach taken by the two schools of researchers. When discussing the outcomes of these games, animal behaviourists speak of “evolutionarily stable strategies”, with the implication that the way they are played has been hard-wired into the participants by the processes of natural selection. Economists prefer to talk of Nash equilibria and, since economics is founded on the idea of rational human choice, the implication is that people will adjust their behaviour (whether consciously or unconsciously is slightly ambiguous) in order to maximise their gains. But a study just published in the *Proceedings of the National Academy of Sciences*, by Robert Kurzban of the University of Pennsylvania and Daniel Houser of George Mason University in Fairfax, Virginia, calls the economists' underlying assumption into question. This study suggests that it may be fruitful to work with the idea that human behaviour, too, can sometimes be governed by evolutionarily stable strategies.

Double or quits?

Dr Kurzban and Dr Houser were interested in the outcomes of what are known as public-goods games. In their particular case they chose a game that involved four people who had never met (and who interacted via a computer) making decisions about their own self-interest that involved assessing the behaviour of others. Each player was given a number of virtual tokens, redeemable for money at the end of the game. A player could keep some or all of these tokens. Any not kept were put into a pool, to be shared among group members. After the initial contributions had been made, the game continued for a random number of turns, with each player, in turn, being able to add to or subtract from his contribution to the pool. When the game ended, the value of the pool was doubled, and the new, doubled value was divided into four equal parts and given to the players, along with the value of any tokens they had held on to. If everybody trusts each other, therefore, they will all be able to double their money. But a sucker who puts all his money into the pool when no one else has contributed at all will end up with only half what he started with.

This is a typical example of the sort of game that economists investigating game theory revel in, and both theory and practice suggests that a player can take one of three approaches in such a game: co-operate with his opponents to maximise group benefits (but at the risk of being suckered), free-ride (ie, try to sucker co-operators) or reciprocate (ie, co-operate with those who show signs of being co-operative, but not with free-riders). Previous investigations of such strategies, though, have focused mainly on two-player games, in which strategy need be developed only in a quite simple context. The situation Dr Kurzban and Dr Houser created was a little more like real life. They wanted to see whether the behavioural types were clear-cut in the face of multiple opponents who might be playing different strategies, whether those types were stable, and whether they had the same average pay-off.

The last point is crucial to the theory of evolutionarily stable strategies. Individual strategies are not expected to be equally represented in a population. Instead, they should appear in proportions that equalise their pay-offs to those who play them. A strategy can be advantageous when rare and disadvantageous when common. The proportions in the population when all strategies are equally advantageous represent the equilibrium.

And that was what happened. The researchers were able to divide their subjects very cleanly into co-operators, free-riders and reciprocators, based on how many tokens they contributed to the pool, and how they reacted to the collective contributions of others. Of 84 participants, 81 fell unambiguously into one of the three categories. Having established who was who, they then created “bespoke” games, to test whether people changed strategy. They did not. Dr Kurban and Dr Houser were thus able to predict the outcomes of these games quite reliably. And the three strategies did, indeed, have the same average pay-offs to the individuals who played them—though only 13% were co-operators, 20% free-riders and 63% reciprocators.

This is only a preliminary result, but it is intriguing. It suggests that people's approaches to co-operation with their fellows are, indeed, evolutionarily stable. Of course, it is a long stretch from showing equal success in a laboratory game to showing it in the mating game that determines evolutionary outcomes. But it is good to know that in this context at least, nice guys do not come last. They do just as well as the nasty guys and, indeed, as the wary majority.

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Space exploration

Moon river?

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The latest news from Titan

AP

The "stream" is to the bottom right

A PICTURE may be worth a thousand words. But when the picture in question is of an alien world, it is difficult to be sure what those thousand words should be. And in the case of the images that have arrived from Titan, Saturn's largest moon, that world is very alien indeed.

On January 14th *Huygens*, a space probe built by the European Space Agency (ESA), landed on Titan and began to deliver its precious cargo of data to anxiously waiting scientists. The most striking finding so far is a picture taken as the probe descended. It appears to show pale hills criss-crossed with drainage channels containing dark material, leading to a wide, flat darker region. The landing site itself produced less striking, but still significant images. It is flat, strewn with rounded pebbles and appears to be a dry riverbed.

On Earth, or even on Mars, drainage channels and rounded pebbles would be taken as evidence for the erosive effects of liquid water. But at -180°C, Titan is too cold for water to be liquid. It is, however, not too cold for various hydrocarbons to be so (indeed, the most likely candidates, methane and ethane, are gases at terrestrial temperatures). Many people have suggested that Titan's dark regions might be lakes made of such hydrocarbons, or of tar that is composed of hydrocarbons which are too cold to be truly liquid, but have not frozen solid. The presence of hydrocarbons in Titan's atmosphere was confirmed on the probe's journey through it. *Huygens*'s instruments detected both methane and ethane. But the pebbles in the picture probably are made of water—in the form of ice.

Because all of the raw images from *Huygens* were immediately made available to the public via the internet, amateurs have been racing ESA and its American cousin NASA to create processed, composite images. Some scientists say that a glitch led ESA to publish more data than it had originally intended, something that ESA denies. Nevertheless, a few minutes after the *Huygens* data were published on one website, they were mysteriously yanked off the web again.

The availability of the data, though, has led to the publication on the internet of a short movie compiled from a series of 80 still images taken of the landing site. This five-second film appears to show movement, with small white objects crossing the camera's field of vision.

ESA's scientists were quick to point out that any movement seen was likely to be an artefact that owed its existence to nothing more than the fact that the images had not been put together correctly. Whether that interpretation is correct should be clear when ESA's own "official" movie is released, which had not happened as *The Economist* went to press.

Nevertheless there is, privately, a debate among planetary scientists as to whether the white blobs are an artefact, or pieces of ice being carried past the lander on a thin stream of liquid hydrocarbon a few centimetres deep.

That would be exciting. A stream is a stream, whether it is made of water or hydrocarbon. At the moment, Earth is the only body known to have them. But, as Ralph Lorenz, a planetary scientist at the University of Arizona, points out, the lesson from places such as Mars—and indeed Arizona—is that features created by liquids may exist, but the processes that carved them may be transitory or long gone. It is possible that rare but violent events, rather than continuous erosion, are responsible for shaping Titan's landscape. Whether *Huygens* has collected enough data to tell the difference remains to be seen.

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GM crops

Greener than you thought

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Genetically modified sugar beet is good for the environment

THOUGH often conflated in the public mind, arguments against the planting of genetically modified (GM) crops fall into two distinct groups. One, which applies only to food crops, is that they might, for some as yet undemonstrated reason, be harmful to those who eat them. The other, which applies to them all, is that they might be bad for the environment.

Proponents of the technology counter that in at least some cases GM crops should actually be good for the environment. Crops that are modified to produce their own insecticides should require smaller applications of synthetic pesticides of the sort that Greens generally object to. But in the case of those modified to resist herbicides the argument is less clear-cut. If farmers do not have to worry about poisoning their own crops, environmentalists fear, they will be more gung-ho about killing the wild plants that sit at the bottom of the food chain and keep rural ecosystems going—or weeds, as they are more commonly known.

Research just published in the *Proceedings of the Royal Society* suggests, however, that it may be possible for all to have prizes. Get the dose and timing right and you can have a higher crop yield and a higher weed yield at the same time—and also use less herbicide.

The research was done at Broom's Barn Research Station in Suffolk, by a team led by Mike May, the head of the station's weeds group. The team was studying GM sugar beet. This was one of the species examined in the British government's Farm-Scale Evaluations (FSEs) project, a huge, three-year-long research programme designed to assess the effects (including the environmental effects) of herbicide use on GM crops.

The results for sugar beet, which competes badly with common weed species and thus relies heavily on the application of herbicides for its success, came in for particular criticism from environmentalists when the trials concluded in 2003. They indicated that fields planted with GM beet and treated with glyphosate, the herbicide against which the modification in question protects, had fewer weeds later in the season. These produced fewer seeds and thus led to reduced food supplies for birds. Some invertebrates, particularly insects, were also adversely affected.

The Broom's Barn researchers, however, felt that this problem might be overcome by changing the way the glyphosate was applied. They tried four different treatment “regimes”, which varied the timing and method of herbicide spraying, and compared them with conventional crop-management regimes such as those used in the FSEs.

The best results came from a single early-season application of glyphosate. This increased crop yields by 9% while enhancing weed-seed production up to sixteen-fold. And, as a bonus, it required 43% less herbicide than normal. Genetic modification, it seems, can be good for the

environment, as well as for farmers' pockets.

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Linguistics

Corpus colossal

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How well does the world wide web represent human language?

LINGUISTS must often correct lay people's misconceptions of what they do. Their job is not to be experts in “correct” grammar, ready at any moment to smack your wrist for a split infinitive. What they seek are the underlying rules of how language works in the minds and mouths of its users. In the common shorthand, linguistics is descriptive, not prescriptive. What actually sounds right and wrong to people, what they actually write and say, is the linguist's raw material.

But that raw material is surprisingly elusive. Getting people to speak naturally in a controlled study is hard. Eavesdropping is difficult, time-consuming and invasive of privacy. For these reasons, linguists often rely on a “corpus” of language, a body of recorded speech and writing, nowadays usually computerised. But traditional corpora have their disadvantages too. The British National Corpus contains 100m words, of which 10m are speech and 90m writing. But it represents only British English, and 100m words is not so many when linguists search for rare usages. Other corpora, such as the North American News Text Corpus, are bigger, but contain only formal writing and speech.

Linguists, however, are slowly coming to discover the joys of a free and searchable corpus of maybe 10 trillion words that is available to anyone with an internet connection: the world wide web. The trend, predictably enough, is prevalent on the internet itself. For example, a group of linguists write informally on a weblog called Language Log. There, they use Google to discuss the frequency of non-standard usages such as “far from” as an adverb (“He far from succeeded”), as opposed to more standard usages such as “He didn't succeed—far from it”. A search of the blog itself shows that 354 Language Log pages use the word “Google”. The blog's authors clearly rely heavily on it.

For several reasons, though, researchers are wary about using the web in more formal research. One, as Mark Liberman, a Language Log contributor, warns colleagues, is that “there are some mean texts out there”. The web is filled with words intended to attract internet searches to gambling and pornography sites, and these can muck up linguists' results. Originally, such sites would contain these words as lists, so the makers of Google, the biggest search engine, fitted their product with a list filter that would exclude hits without a correct syntactical context. In response, as Dr Liberman notes, many offending websites have hired computational linguists to churn out syntactically correct but meaningless verbiage including common search terms. “When some sandbank over a superslots hibernates, a directness toward a progressive jackpot earns frequent flier miles” is a typical example. Such pages are not filtered by Google, and thus create noise in research data.

There are other problems as well. Search engines, unlike the tools linguists use to analyse standard corpora, do not allow searching for a particular linguistic structure, such as “[Noun phrase] far from [verb phrase]”. This requires indirect searching via samples like “He far from succeeded”. But Philip Resnik, of the University of Maryland, has created a “Linguist's Search

Engine" (LSE) to overcome this. When trying to answer, for example, whether a certain kind of verb is generally used with a direct object, the LSE grabs a chunk of web pages (say a thousand, with perhaps a million words) that each include an example of the verb. The LSE then parses the sample, allowing the linguist to find examples of a given structure, such as the verb without an object. In short, the LSE allows a user to create and analyse a custom-made corpus within minutes.

The web still has its drawbacks. Most of it is in English, limiting its use for other languages (although Dr Resnik is working on a Chinese version of the LSE). And it is mostly written, not spoken, making it tougher to gauge people's spontaneous use. But since much web content is written by non-professional writers, it more clearly represents informal and spoken English than a corpus such as the North American News Text Corpus does.

Despite the problems, linguists are gradually warming to the web as a corpus for formal research. An early paper on the subject, written in 2003 by Frank Keller and Mirella Lapata, of Edinburgh and Sheffield Universities, showed that web searches for rare two-word phrases correlated well with the frequency found in traditional corpora, as well as with human judgments of whether those phrases were natural. What problems the web throws up are seemingly outweighed by the advantages of its huge size. Such evidence, along with tools such as Dr Resnik's, should convince more and more linguists to turn to the corpus on their desktop. Young scholars seem particularly keen.

The easy availability of the web also serves another purpose: to democratise the way linguists work. Allowing anyone to conduct his own impromptu linguistic research, some linguists hope, will do more to popularise their notion of studying the intricacy and charm of language as it really exists, not as killjoy prescriptivists think it should be.

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A new exhibition of Turkish art

Out of Asia

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It's called "Turks: A Journey of a Thousand Years, 600-1600" but it's not quite that

IT LOOKS like brilliant timing: an exhibition entitled "Turks" opening at London's Royal Academy of Arts just one month after the historic agreement between Turkey and the European Union to begin negotiations on the Muslim country's membership of the predominantly Christian club. But the appearance is deceptive. The show was cobbled together in 14 months—"at great, great speed," according to Norman Rosenthal, the Academy's exhibitions secretary—when a long-planned exhibition on ancient Egypt fell through. And it's not really about Turks.

In the 82 years since the creation of the Turkish republic, Turks have defined themselves ever more narrowly. The founder of the republic, Mustafa Kemal, decreed that they are Sunni Muslims who speak Turkish and live within the borders of Turkey. The man who liked to be known as "Ataturk", "Father of the Turks" wished to make no claims for metaphorical paternity of anything other than a thoroughly modern citizen of a European-standard state.

This exhibition of works of art from 600 to 1600, endorsed by Recep Tayyip Erdogan, Turkey's prime minister, who, sight unseen, says it gives "a unique insight into the extraordinary legacy of the Turks", is a welcome indication that Turks are now happy to accept a wider identity than that imposed by Ataturk. But it has little to do with the people who will be sitting around tables in Brussels for the next few years poring over volumes of EU legislation.

Through their art, the exhibition attempts to tell a complicated story of migrant tribes emerging from central Asia, adopting Islam and sweeping south of the Caspian Sea, through Iran, Iraq, Syria and into modern-day Turkey. At the official opening, only David Roxburgh, Harvard's Scottish professor of Islamic art, who is an adviser to the show, was sure-footed in his description

of an exhibition that he says, “begins in the syncretistic environment of the Silk Road”. Mr Rosenthal had to be sharply corrected when he referred to “the temples of Istanbul”.

Possibly a hit?

The show embraces the Uighurs, the Timurids, the Seljuks, the Ottomans and more, and to call them all Turks is daft, as the introduction in the first exhibition hall acknowledges: “Although the Turks were not always the makers of these works of art,” it admits, “they played an important role in the formation of new artistic traditions and presided over polyglot societies that were characterised by dynamic cultural exchanges”—which is to say, the show is a hodge-podge of stuff from many places, many tribes and many periods.

Much of the attribution is tentative—“probably Iran”; “probably Turkey”, “later attributed to”—and the millennium is an artificial creation that allows the last 40% of the exhibition to consist of more obviously popular Ottoman treasures from Istanbul's Topkapi palace.

That said, there are some wonderful works on show, from seventh-century Asian wall-paintings to a huge “tugra”, or official signature, of Suleyman the Magnificent, a contemporary of the first Queen Elizabeth. Towering over them all, and worth a visit in their own right, are the 14th-century drawings “attributed to” Muhammad of the Black Pen (see above). This is the first time these mysterious works have been exhibited outside Istanbul, where they are kept in the Topkapi.

Pasted in an album a century or so after they were created, alongside other lesser drawings, the ink and gouache scenes of devils and daily life have intrigued scholars for decades. In one, a donkey is defecating at the same time as it is being fed by its owner; in another, two seated demons are waving their arms about wildly. It is said to be “possible” that these wonderful drawings were used as visual aids by itinerant storytellers who on long dark evenings in remote village gatherings wove spellbinding tales around them. True or not, their verisimilitude has the power to transport the viewer back among those rapt candle-lit audiences as they syncretised along the Silk Road.

Will the exhibition, which runs until April 12th, have crowds queuing round the block? It partly depends on London's current appetite for Islamic themes, and partly on what competing options there are in town. But the poor lay-out of the exhibits cannot help the Academy's chances of having the blockbuster it craves. Subdued lighting is understandable in galleries containing seventh-century wall paintings. But labelling that requires anyone over four feet (1.2 metres) tall to stoop, only for them to find the description of the artefact lost in the glare bouncing off the metal label, is not designed to encourage word-of-mouth recommendation. Not for an exhibition that is like a certain type of Hollywood movie, one with plenty of memorable images but with a plot that has more twists than Chubby Checker.

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New York theatre

A night on the town

Jan 20th 2005
From The Economist print edition

What's worth spending your dollars on

AP

Sam Shepard (right) and Dallas Roberts exploring the meaning of life

IT IS easy to think of the New York theatre as a showcase for musicals: song-and-dance extravaganzas are the engine that keeps Broadway going. But that would be to overlook Off Broadway's ability to give space each year to major playwrights, even if this season only one—the British dramatist Caryl Churchill—is on truly top form. After all, it is not a bad theatrical climate that allows plays by so diverse a group as Woody Allen, Neil LaBute and John Patrick Shanley, three American writers at least equally well known for their work in film. It is hardly their fault if they had the misfortune to open in the same season as Ms Churchill's dazzling “A Number”, an intimate two-character play that lasts just 65 minutes.

Londoners saw the same play late in 2002 at the Royal Court in an even more adventurous production than the one that has just been extended through February 13th at the New York Theatre Workshop, in Manhattan's East Village. This week Arliss Howard replaced the star whose unexpected presence had made the play's New York premiere one of the winter's hottest tickets: the playwright Sam Shepard, making his first theatrical appearance on stage in some 30 years.

Truth to tell, Mr Shepard at his more recessive was less an occasion than the play itself, which uses the topic of cloning to take a scalpel to a deeply damaged father-son relationship. Across five scenes, an older man is visited by three of any number of his sons: the original child and two cloned versions. How do they co-exist? Badly, in a play that gently probes the nature of existence. The production, directed by James Macdonald, is never better than when it tilts the play's metaphysical axis towards the domestic, as Dallas Roberts (playing all three of the sons) lets rip with a long howl on the single word “dad”—the monosyllable stretched to breaking point until it

resembles a baby's cry.

Other New York plays slot into more recognisable genres. “A Second Hand Memory”, written and directed by Woody Allen and playing Off Broadway at the Atlantic Theatre Company, feels all too second-hand, as if Mr Allen's vibrant New York sensibility has given way in this instance to imitation Arthur Miller.

One senses the spectre of Mr Miller hovering over Mr Allen's awkward portrait of a dysfunctional Brooklyn family circa 1950: the hapless father, Lou (Dominic Chianese), possesses the furious defeatism of many of Mr Miller's leading men without, in this case, the gravitas to lift an ordinary depiction of sadly ordinary lives towards the iconic. Yet the acting pretty much delivers, and there is an ace performance from Michael McKean as the family member who went to Hollywood to become a successful agent made up in equal measure of smiles and sleaze. On that front, one assumes, Mr Allen knows whereof he writes; after all, not for nothing has he remained rooted to New York.

Neil LaBute seems to write plays even more regularly than Woody Allen makes films, even if “Fat Pig” at the Lucille Lortel, the latest from a dramatist with a long-standing interest in misanthropy, is not as fierce as its title might suggest. Indeed, after an all too familiar opening over food, the play runs aground in contrivance: will our overweight heroine (the charmingly husky-voiced Ashlie Atkinson) find romance with the sweet if forbiddingly fit Tom? The finish ought not to be revealed beyond noting that a potentially ambiguous conclusion comes off as lazy, suggesting that “Fat Pig” is not yet a full meal.

Nor, for that matter, is John Patrick Shanley's “Doubt”, currently at the Manhattan Theatre Club in advance of a commercial Broadway transfer in the spring. That gives Mr Shanley, the Oscar-winning author of the 1987 movie “Moonstruck”, time to finesse a play so busy pushing hot-button issues—racism, child abuse, homosexuality—that some dubious stagecraft has been allowed to slip through. On the other hand, with topics this explosive, one thing's for sure: the play's status as the season's talking-point is not in doubt.

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The New York Times

Hard times

Jan 20th 2005
From The Economist print edition

WHEN Howell Raines was made executive editor of the *New York Times* in 2001, he brought with him a reputation as a fearless and independent newsman. Within days, al-Qaeda struck the World Trade Centre, and the coverage he oversaw turned him into an editorial legend, his army of reporters winning an unprecedented number of Pulitzer prizes.

Yet, not a year and a half later, the discovery of fabrication by a young reporter triggered a managerial crisis that destroyed Mr Raines's career and exposed the newspaper to ridicule for being unable to detect a pathological liar in its own newsroom. Not long afterwards, another reporter, who was also a favourite of Mr Raines's, departed as questions were being raised as to whether he had actually reported the stories appearing under his byline. A year on, many inside the world's best known paper of record and integrity still worry if its reputation can be restored.

In the story of this rise and fall, journalism, which can be a tedious affair of innumerable telephone calls made in search of scraps of insight, comes off as rather exciting—which is presumably good for the sales of Seth Mnookin's book.

Mr Raines got the editorship after vowing to raise the paper's “competitive metabolism”. The newspaper's publisher, Arthur Sulzberger, had had ample opportunities to see his flaws. As bureau chief in Washington, DC, Mr Raines had treated a small group of reporters like pets, earning the dislike of the rest. Similar opinions had been voiced when he ran the newspaper's editorial page. But in each place, Mr Raines had made the *New York Times* noticed. And for Mr Sulzberger, that seemed to be an answer to a problem.

Circulation had been stagnant for years, despite attempts to establish the *New York Times* as America's national paper. According to Mr Mnookin, Mr Sulzberger and Mr Raines both felt that the newspaper was badly in need of a jolt.

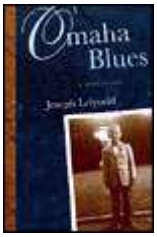
In Mr Raines's hands, this meant putting inordinate pressure on getting the impossible story. The paper had also been making an effort to diversify the racial mix of its employees, a goal that Mr Raines endorsed. Both objectives converged in the career of Jayson Blair, whose talent as a writer was matched by his dishonesty as a reporter. His career was advanced by Mr Raines despite the trail of errors and suspect scoops that he left.

Hard News: The Scandals at The New York Times and Their Meaning for American Media
By Seth Mnookin

Random House; 331 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

Omaha Blues: A Memory Loop
By Joseph Lelyveld



Farrar, Straus and Giroux; 224 pages; $22

Buy it at
Amazon.com
Amazon.co.uk

After the Blair fiasco, a painful self-examination began at the *New York Times* which continues today. Among other things, a kind of devil's advocate was hired to criticise the paper's workings, and to go public about its contradictions. Daniel Okrent's column is one of the newspaper's more provocative, addressing its left-of-centre world view and its use of outside sources to provide spurious objectivity for its own conclusions. Perhaps the result of all this will be the jolt that Mr Sulzberger was seeking.

Ironically, it is hard to think of anyone who better epitomises unflinching self-scrutiny than Joseph Lelyveld, who preceded Mr Raines as editor at the *New York Times* and who briefly took over again after Mr Raines went. His autobiography is the wrenching tale of a man whose life is spent tortured by self-doubt and conflict.

Mr Lelyveld was raised as the unwanted child of a suicidal, self-obsessed mother and a famous rabbi. Huge issues, such as communism and civil rights, took a personal toll, sometimes leaving him at a loss, not knowing whether members of his own family had been brave or cowardly or duped.

In trying to reconstruct the story of his life, Mr Lelyveld, through letters and interviews, finds that “my memory sets its own scene, casting aside whatever doesn't fit its story line.” He recalls a brief moment of happiness that his parents shared at the birth of his brother, but was even that real? He later learns that his brother was fathered by another man. When he examines his “memory loop”, events are clearer, but never entirely so. The truth, as both books suggest, is a dodgy business.

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By Seth Mnookin.
Random House; 331 pages; $25.95

Omaha Blues: A Memory Loop.
By Joseph Lelyveld.
Farrar, Straus and Giroux; 224 pages; $22

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Eritrea

Shadiness in the sun

Jan 20th 2005
From The Economist print edition

MICHELA WRONG'S first book, which came out in 2000, took the reader on an absurd journey through the Congo under General Mobutu Sese Seko. As sad as it was hilarious, “In the Footsteps of Mr Kurtz” set a new standard for journalistic narrative about Africa, and it richly deserved the PEN prize for non-fiction.

Such glittering beginnings are all too often followed by less successful efforts. But Ms Wrong's second book, about the little known nation of Eritrea, is, if anything, better than her first. Her original research is more illuminating, her eye more observant, her writing far more wry and witty.

Dry, inhospitable and hotter than anyone can imagine, craggy mountainous Eritrea, clinging to the Horn of Africa, seems to offer nothing to speak of. But it has history; and what a history. “In fact,” as one Eritrean academic says, “that's all it has.”

In the 1930s, Benito Mussolini's architects built an Art Deco city in Asmara, Eritrea's capital and the centre of Italy's short-lived “place in the sun”, its second Roman Empire. During the second world war, Britain invaded the Horn of Africa, seized much of the Italian investment in Eritrea's ports and industry, and sold it off (without paying any compensation) to help finance its own war efforts farther north. Then the UN, which administered the territory after the war, allowed itself to be persuaded by Emperor Haile Selassie of Ethiopia, Eritrea's western neighbour, that Eritrea had no rights of its own and should come under his imperial flag.

Haile Selassie's flirtation with America took on an added glow at the height of the cold war after it was discovered that Eritrea's topography made it the best place on earth to receive and transmit radio signals, and that it was particularly well suited to allow America to monitor traffic to and from Russia, Israel, Egypt, Libya and the rest of the Middle East. America took out a 25-year lease on a site on top of the Hamasien plateau and built Kagnew, its biggest eavesdropping installation anywhere, for which it eventually paid Ethiopia more than $360m in military aid as rent.

After the emperor was overthrown, the new Ethiopian regime hightailed it over to the Soviet side from which it extricated nearly $9 billion more in military hardware, much of which it used to try to crush the Eritrean rebel movement that had been growing stronger with every passing year. Only when the cold war came to an end did Ethiopia and Eritrea make a peace (of sorts) that would allow Eritrea to forge its way to independence. By then, 60,000 Eritreans had been killed fighting its neighbour, one in 50 of its people (a later senseless border war killed another 70,000).

To crush an army four times its size Eritrea's rag-bag rebel movement pledged lives to the cause.

I Didn't Do It For You: How the World Betrayed a Small African Nation
By Michela Wrong

Fourth Estate; 342 pages; £16.99. To be published in America by HarperCollins in June

Buy it at
Amazon.co.uk

In the mountainous outback the rebels created a flourishing cultural life in which education was compulsory. Suffering and fortitude gave Eritrea its strength and the rebels' commitment drew admiring visitors from all over the world. When independence came after 1991, it was widely believed that this was the one country that would not succumb to corruption, bigotry or Big-Manism, Africa's common malaises. But after just five years the dream had begun to darken.

That the full story of Eritrea has never been told before is in part because the country has always been a small square of a much bigger canvas, but also perhaps because the countries that involved themselves in its affairs seem always to have behaved in such an appalling way. Eritrea's fate at the hands of others is an example of how grudges that are not dealt with take on a momentum of their own and how small conflicts left to fester long enough can bring down empires.

It also demonstrates, and this is where Ms Wrong's book shines most strongly, how history can help to forge a national character. As Eritrea faces the challenges of making a nation out of a national movement, it is still to be seen whether its mulish and self-reliant people can rediscover the extraordinary inner strength they demonstrated as a fighting rebel army.

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Underground railways

Down the tubes

Jan 20th 2005
From The Economist print edition

MOST people who depend on underground railways try to avoid thinking about them. All being well, the immense difficulty of running closely sequenced trains at depths of as much as 250 feet, along tunnels that may be over a century old, will not make itself apparent during the slog from home to office. When the challenges become evident, misery is the result. So entreaties to pause and consider the engineering marvels running under London and New York may strike the natural audience for these books as perverse.

Yet subways have literally shaped both cities. Before they were built, roads were clogged with horses, carriages and pedestrians—one count of London's commuters in the 1850s found that two-thirds walked. Underground railways meant that the middle classes could combine city jobs and culture with patches of grass. They also enabled the poor to escape overcrowded tenements: the population of New York's Lower East Side fell by 60% between 1910 and 1940.

London's was the first underground railway—nearly all of it built in the half-century after 1860—and one of the trickiest. It runs under streets so twisty that they could not simply be dug up in order to lay track—the "cut and cover" method used for much of New York's system. Another difference is London's historic lack of civic government, which meant that the money had to be scrounged, mainly from private investors, all of whom had their own ideas on how the system should work.

The lines that now form the backbone of London's tube system were initially financed and run by a motley crew of domestic and foreign money-men, nearly all of whom ended up poorer as a result. An urban rail system is a natural monopoly, and competition, while it lasted, led to endless disputes. One squabble over a siding in 1884 was resolved by chaining a District line train to the track: three Metropolitan engines tried to pull it loose but failed.

Although, even then, "trains in drains" were a favourite target for grumbling journalists and frazzled commuters, the system that resulted from all this chaos was a marvel. It took 70 minutes to trundle around the Circle Line in the early 1890s—just 12 minutes longer than the fastest journey time today, and that in a train powered by steam. And even the chaos may have been preferable to the indolence and under-funding that prevailed after 1948, when the tube was nationalised.

The Subterranean Railway: How the London Underground was Built and How it Changed the City Forever
By Christian Wolmar

Atlantic Books; 351 pages; £17.99

Buy it at
Amazon.co.uk

The City Beneath Us: Building the New York Subways
By Vivian Heller and the New York Transit Museum

Norton; 245 pages; $45

Buy it at
Amazon.com
Amazon.co.uk

Christian Wolmar's book is a better read than Vivian Heller's, though the latter has splendid photographs of the subway in construction. And perhaps it is a bit unfair of Mr Wolmar to harp on the inability of those who built the tube to appreciate the lasting social benefits of a decent rail system under London, which is to subject them both to hindsight and to an agenda that was not their own. Yet readers of both books may be reassured by tales of past catastrophes that dwarf present annoyances. Open one of them the next time you are stuck in the tunnel outside Edgware Road or Atlantic Avenue, and feel becalmed.

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James Turrell's world

Seeing the light

Jan 20th 2005
From The Economist print edition

A painter who projects moonbeams and catches starlight

AP

Let there be light, and there was light

HE BEARS an uncanny resemblance to God, at least God as he appears through centuries of art history. Perhaps it is his long, silvery beard, his sphinx-like expression, his cryptic utterances about seeing the light. He is otherworldly, but not nearly as otherworldly as his art.

James Turrell calls himself a painter in light and has spent his career creating an objectless art that seems to be made of solid light. He is now exhibiting in Valencia, where one of the four installations is a bright red circular room, the sort of space you might find in Star Trek, except that you see only a thick red haze. Every sound you make echoes so that even your breathing reverberates. If you try to touch the walls, your hand disappears into the red. But nothing is there except light. “I am interested in light as something that has density and presence when you are in it, not something transparent,” says the artist. He sees light as a nourishing force which we need in both physical and spiritual ways.

Each of the Valencia installations isolates a different type of light. One appears dark grey, like a cinema before the film comes on. But as the eyes adjust, the room turns green and the screen seems to follow viewers as they move around. A third room creates a crepuscular light, becoming gradually foggy and then clear in an all-enveloping space. The last chamber glows a dense violet blue. Mr Turrell's art is total abstraction and yet evokes aspects of nature—sunset, dawn, the heavens—with extraordinary intensity.

If all this sounds a bit Californian, it is. Mr Turrell began a movement in the late 1960s known as the California Sublime. With other local artists, he sought to make an art that reflected the

atmosphere, light and wide open spaces of the west, and to use the elements of nature in new ways.

Flying, which he learned as a teenager, helped Mr Turrell to appreciate the quality of light. Instead of going to art school, he studied perceptual psychology. “I needed to go somewhere where they dealt with what seeing actually is. Perceptual psychology has to do with how we form reality.” He cites his Sky Spaces, meditative chambers that he builds in areas of outstanding natural beauty, whose ceilings are open to the sky. “People think that I change the colour of the sky, but I don't, I change the context of vision so that we see the sky more intensely.”

His biggest Sky Space is the Roden Crater in the Arizona desert, with a 1,000-ft (300-metre) opening to the sky that lets him use the sun, moon and stars as raw materials for his art. In 1977 he bought the crater, with outside help, and has now formed the Skystone Foundation to run it. He is still trying to raise the $12m-15m necessary for the crater to open to the public by the spring of 2006. This would be in time for the next “moonstrike”: the moment, reached every 18.6 years, when the moon reaches its southerly orbital position and will cast a beam of light through a tunnel, projecting, as a huge camera obscura, a lunar image inside the crater.

Mr Turrell looks into the sky and sees things that others don't. “As you walk through the crater up into the sky, you can see your shadow in the light of Venus. In another chamber I catch starlight that is several years old. I want people to experience vintage light, not just sunlight, which is only eight and a half minutes old. I want people to realise that light is precious.”

“James Turrell” is at the Institut Valencia d'Art Modern, Valencia, Spain until February 20th

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Obituary

Zhao Ziyang

Jan 20th 2005
From The Economist print edition

AFP

Zhao Ziyang, a sidelined reforming leader of China, died on January 17th, aged 85

Get article background

THE Chinese Communist Party tried hard to bury and forget Zhao Ziyang. Had he not been removed from his post as party chief in 1989 and made a non-person, Mr Zhao could well have transformed China into a country very different from the one it is today. For he believed that capitalism was possible without terrifying the party's critics into silence.

In his guarded compound in a quiet alley close to Beijing's main commercial district, Mr Zhao lived out his last years without openly challenging the party. Foreign leaders politely avoided mentioning him when visiting Beijing. By the time he died, his name meant little to the young urbanites at the forefront of China's economic transformation. Yet the party remained in fear of Mr Zhao until his dying breath.

In Chinese political tradition, opposition to the powers-that-be need not be outspoken in order to make its point. Mr Zhao never resigned from the party. He did not court the media. Yet, to many, his nuanced nonconformism with the post-Tiananmen order was an inspiration. He could have salvaged something of his political career by publicly acknowledging his “errors”, but refused to. He defended himself strongly, in absentia, at the closed-door meeting of the party's Central Committee that rubber-stamped his dismissal. At a party congress in 1997, some believe he circulated a message saying the crackdown was wrong. Others thought it a fake.

Mr Zhao will be best remembered for his most conspicuous—and most nuanced—protest of all: his appearance (see above) in Tiananmen Square at the height of the protests on May 19th 1989. This was the first visit to the demonstrators by a top leader, and the last. Speaking through a megaphone, Mr Zhao told the protesters that he had come “too late”. He did not criticise anyone. He did not say what he meant. But, in the coded language of Chinese political rhetoric, his message was abundantly clear. He had come too late to save the demonstrators. His political days were over. He wanted them to leave the square before it was too late. The next day, martial law was declared in Beijing. On June 4th, soldiers opened fire on the demonstrators, killing many. Mr Zhao never appeared in public again.

His behaviour during Tiananmen was never that of a hero. Students in the square did not especially admire him, and his appearance there may have been designed to further his own political ambitions. He showed no sign either before or after Tiananmen of opposing one-party rule. But in a political environment that brooked no dissent, he was undoubtedly a reformer. And he clearly opposed the decision to mobilise the army against the demonstrators. Had military force not been used, China might well have followed the path of other communist countries at the end of that decade—for better, or worse.

Before Tiananmen, Mr Zhao's record as a liberal was hardly stunning. Installed as party chief in 1987 by China's paramount leader, Deng Xiaoping, he showed no sign of unwillingness to follow Deng's desires (economic reform, and a bit of political reform as long as it kept the party firmly in power). But Mr Zhao impressed foreigners. He appeared lively, well informed and keen on capitalist ideas. At a reception after his formal inauguration as party chief at the 1987 party congress, he clinked his wine-filled glass with foreign correspondents and readily answered their questions. Such informal banter between a Chinese leader and the Beijing-based foreign press has not been repeated.

And Mr Zhao had a solid pedigree as an advocate of economic reform. As China's prime minister for seven years before taking over as party general secretary, he was evidently a strong advocate of loosening the state's dead grip on China's urban economy. Indeed, it was his economic policies rather than his political views that angered his rivals. In the summer of 1988, Mr Zhao came under strong attack from party conservatives, who blamed him for policies that had led to a surge of inflation and a run on banks earlier that year.

Ironically, considering how few Chinese peasants may even know his name now, it was in the countryside that Mr Zhao first built his reputation as an economic reformer. As party chief of Sichuan Province in the 1970s, he promoted successful agricultural reforms that emphasised household production rather than collective farming. This gave rise to the oft-quoted ditty, *Yao chi liang, zhao Ziyang*—If you want to eat grain, look for Ziyang. (Mr Zhao's surname is a homonym of the Chinese for “look for”.)

Chinese leaders will be relieved that this son of a Henanese landlord, born just eight years after the end of China's last imperial dynasty in 1911, lived so long. Had Mr Zhao died soon after the Tiananmen protests, they might have faced a bigger crisis. It was the death in 1989 of Hu Yaobang, another reformer, that sparked the Tiananmen unrest in the first place. But luckily for the party, the passage of time—and China's considerable economic achievements since Mr Zhao's removal—have helped the memories to fade.

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Correction: Susan Sontag

Jan 20th 2005
From The Economist print edition

In our obituary of Susan Sontag, we claimed that she wrote in the *New Yorker* that America deserved the September 11th attacks. What she actually said was that the attacks were "undertaken as a consequence of specific American alliances and actions". We apologise for misrepresenting her.

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Overview

Jan 20th 2005
From The Economist print edition

Oil prices have continued to rise. West Texas Intermediate, a benchmark, touched $49.50 a barrel on January 18th, more than $7 higher than at the start of the year.

Inflationary pressures appeared to ease in **America**. Consumer prices rose by 3.3% in the year to December, down from 3.5% in November. However, core consumer prices, which exclude the volatile categories of food and energy, rose in December by 0.2% for the third consecutive month. Core inflation was 2.2% in the year to December, double the rate of 1.1% through 2003.

America's builders had a strong month in December, dampening fears that the country's construction boom had ended. New housing starts had fallen by 12.5% from October to November, but they rebounded by 10.9% in December.

Industrial production in **America** was also robust, rising by 0.8% in December, twice as fast as analysts had expected. That left output 4.4% higher than a year earlier, up from 3.7% in the year to November.

In **Canada**, consumer prices rose by 2.1% in the year to December, down from 2.4% in November. However, core inflation picked up slightly to 1.7% in the year to December.

The growth of **Japan's** industrial production in the year to November was revised up from 4.3% to 4.5%. Retail sales increased by 0.3% over the same period; in the year to October, they had fallen by 2.2%.

There were further signs of a slowdown in the **euro area**. Industrial production fell by 0.3% in November from October. Output was thus 0.5% higher than a year before, down from 1.1% in October.

Inflation in **Britain** unexpectedly accelerated. Consumer prices rose by 1.6% in the year to December, up from 1.5% in November. The financial markets had been expecting 1.4%. The retail-price index, which includes owner-occupier housing costs and is still the basis for many pay negotiations, increased by 3.5% in the 12 months to December, the highest since July 1998.

Britain's average earnings in the three months to November increased by 4.2% on the same period a year before.

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Output, demand and jobs

Jan 20th 2005
From The Economist print edition

% change on year ago

	GDP			The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	latest		qtr*	2004	2005	latest		latest		latest		year ago
Australia	+ 3.0	Q3	+ 1.2	+ 3.6	+ 3.0	+ 4.2	Q3	+ 5.7	Q3	5.1	Dec	5.8
Austria	+ 2.7	Q3	+ 3.2	+ 1.7	+ 2.1	+ 7.4	Oct	+ 2.2	Sep	4.5	Dec	4.6
Belgium	+ 2.9	Q3	+ 3.2	+ 2.5	+ 2.1	+ 3.0	Nov	- 0.8	Oct	12.8	Dec†	12.7
Britain	+ 3.1	Q3	+ 1.8	+ 3.2	+ 2.4	- 0.9	Nov	+ 6.1	Nov	4.7	Nov††	4.9
Canada	+ 3.3	Q3	+ 3.2	+ 2.8	+ 3.1	+ 3.6	Oct	+ 5.0	Oct	7.0	Dec	7.4
Denmark	+ 1.8	Q3	+ 0.5	+ 2.1	+ 2.0	- 1.6	Nov	+ 8.5	Nov	6.2	Nov	6.6
France	+ 1.9	Q3	- 0.1	+ 2.1	+ 1.8	+ 2.1	Nov	+ 3.5	Nov	9.9	Nov	9.9
Germany	+ 1.3	Q3	+ 0.4	+ 1.3	+ 1.2	- 0.2	Nov	+ 0.1	Nov	10.8	Dec§	10.5
Italy	+ 1.3	Q3	+ 1.7	+ 1.2	+ 1.5	- 2.8	Nov	- 3.5	Oct	7.7	Jun	8.6
Japan	+ 2.6	Q3	+ 0.2	+ 3.2	+ 1.6	+ 4.5	Nov	+ 0.3	Nov	4.5	Nov	5.1
Netherlands	+ 1.5	Q3	+ 1.3	+ 1.2	+ 1.2	- 0.7	Nov	- 2.6	Oct‡	6.5	Dec**	5.7
Spain	+ 2.6	Q3	+ 2.4	+ 2.6	+ 2.4	+ 4.0	Nov	+ 3.2	Nov	10.5	Nov	11.2
Sweden	+ 3.9	Q3	+ 3.8	+ 3.4	+ 2.8	+ 1.2	Nov	+ 7.9	Nov	5.6	Dec†	5.1
Switzerland	+ 1.8	Q3	+ 1.4	+ 1.8	+ 1.8	+ 3.5	Q3	+ 3.9	Nov	4.0	Dec†	4.1
United States	+ 4.0	Q3	+ 4.0	+ 4.4	+ 3.5	+ 4.4	Dec	+ 4.3	Nov	5.4	Dec	5.7
Euro area	+ 1.8	Q3	+ 1.2	+ 1.8	+ 1.6	+ 0.5	Nov	+ 0.4	Nov	8.9	Nov	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.2	Q3	+ 4.3	na	na	+ 3.1	Nov	+ 2.8	Oct	8.1	Nov†	8.2
Greece	+ 3.8	Q3	na	na	na	+ 2.8	Nov	+ 6.3	Oct	na		na
Iceland	+ 7.4	Q3	na	na	na	na		na		2.6	Nov†	3.0
Ireland	+ 5.8	Q3	na	na	na	-10.4	Nov	+ 1.2	Oct	4.2	Dec	4.4
Luxembourg	+ 2.12003		na	na	na	+ 5.2	Sep	+ 5.4	Nov	4.5	Nov	4.1
New Zealand	+ 4.0	Q3	+ 1.9	na	na	+ 4.5	Q3	+ 7.4	Q3	3.8	Q3	4.4
Norway	+ 1.6	Q3	- 3.9	na	na	+ 0.9	Nov	+ 3.3	Nov	3.5	Nov‡	3.7
Portugal	+ 0.8	Q3	- 4.9	na	na	- 3.8	Nov	+ 4.4	Oct	6.8	Q3†	6.1

*% change on previous quarter at an annual rate. † Not seasonally adjusted. ‡ New series. †† Sep-Nov; claimant count rate 2.7% in Dec. § EU harmonised rate 10.0% in Dec. **Oct-Dec.

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Prices and wages

Jan 20th 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.3	Q3	+ 2.6	+ 2.3	+ 2.5	+ 6.1	Q3	– 0.1	+ 3.7	Q3	+ 5.1
Austria	+ 2.6	Nov	+ 1.3	+ 2.0	+ 1.7	+ 5.2	Dec	+ 2.5	+ 2.0	Nov	+ 2.3
Belgium	+ 2.3	Dec	+ 1.7	+ 2.1	+ 1.7	+ 5.6	Nov	– 0.3	+ 2.4	Oct	+ 1.8
Britain	+ 1.6	Dec*	+ 1.3	+ 1.5	+ 1.7	+ 2.9	Dec	+ 1.8	+ 4.2	Nov†	+ 3.6
Canada	+ 2.1	Dec	+ 2.0	+ 1.9	+ 2.1	+ 4.1	Nov	– 4.1	+ 2.3	Oct	+ 3.2
Denmark	+ 1.2	Dec	+ 1.4	+ 1.2	+ 1.6	+ 2.7	Dec	+ 0.2	+ 2.9	Q3	+ 3.7
France	+ 2.0	Dec	+ 2.2	+ 2.2	+ 1.6	+ 3.1	Nov	+ 0.8	+ 2.7	Q3	+ 2.9
Germany	+ 2.1	Dec	+ 1.1	+ 1.8	+ 1.3	+ 3.8	Dec	+ 1.2	+ 2.2	Oct	+ 1.9
Italy	+ 2.0	Dec	+ 2.5	+ 2.3	+ 2.0	+ 4.2	Nov	+ 1.2	+ 2.7	Nov	+ 2.5
Japan	+ 0.8	Nov	– 0.5	– 0.1	nil	+ 1.9	Dec	– 0.2	+ 1.4	Nov	+ 0.1
Netherlands	+ 1.2	Dec	+ 1.7	+ 1.3	+ 1.2	+ 5.6	Nov	+ 1.1	+ 0.9	Dec	+ 2.4
Spain	+ 3.2	Dec	+ 2.6	+ 3.0	+ 2.8	+ 5.2	Nov	+ 1.3	+ 2.2	Q3	+ 3.1
Sweden	+ 0.4	Dec	+ 1.4	+ 0.7	+ 1.5	+ 2.9	Nov	– 1.6	+ 3.7	Oct	+ 3.2
Switzerland	+ 1.3	Dec	+ 0.6	+ 0.8	+ 1.2	+ 1.5	Dec	– 0.2	+ 1.4	2003	+ 1.8
United States	+ 3.3	Dec	+ 1.9	+ 2.7	+ 2.4	+ 4.1	Dec	+ 3.7	+ 2.7	Dec	+ 1.8
Euro area	+ 2.3	Dec	+ 2.0	+ 2.1	+ 1.8	+ 3.6	Nov	+ 1.4	+ 2.0	Q3	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Dec	+ 0.6	na	na	+ 0.7	Dec	– 0.4	+ 3.1	Q3	+ 4.3
Greece	+ 3.1	Dec	+ 3.1	na	na	+ 2.6	Nov	+ 2.6	na		na
Iceland	+ 4.0	Jan	+ 2.4	na	na	+ 5.9	Dec	+ 3.5	+ 5.4	Nov	+ 5.5
Ireland	+ 2.9	Nov	+ 2.2	na	na	– 1.6	Nov	– 8.4	+ 4.5	Q3	+ 4.6
Luxembourg	+ 2.2	Dec	+ 2.1	na	na	+14.6	Oct	+ 1.0	– 0.1	Sep	na
New Zealand	+ 2.7	Q4	+ 1.6	na	na	+ 2.5	Q3	+ 0.1	+ 2.2	Q3	+ 2.3
Norway	+ 1.1	Dec	+ 0.6	na	na	+ 9.7	Dec	+ 0.7	+ 4.6	Q3	+ 4.2
Portugal	+ 2.5	Dec	+ 2.4	na	na	+ 5.1	Nov	– 0.3	+ 1.4	Sep	– 1.8

*New series. RPI inflation rate in December: 3.5%. †Sep-Nov.

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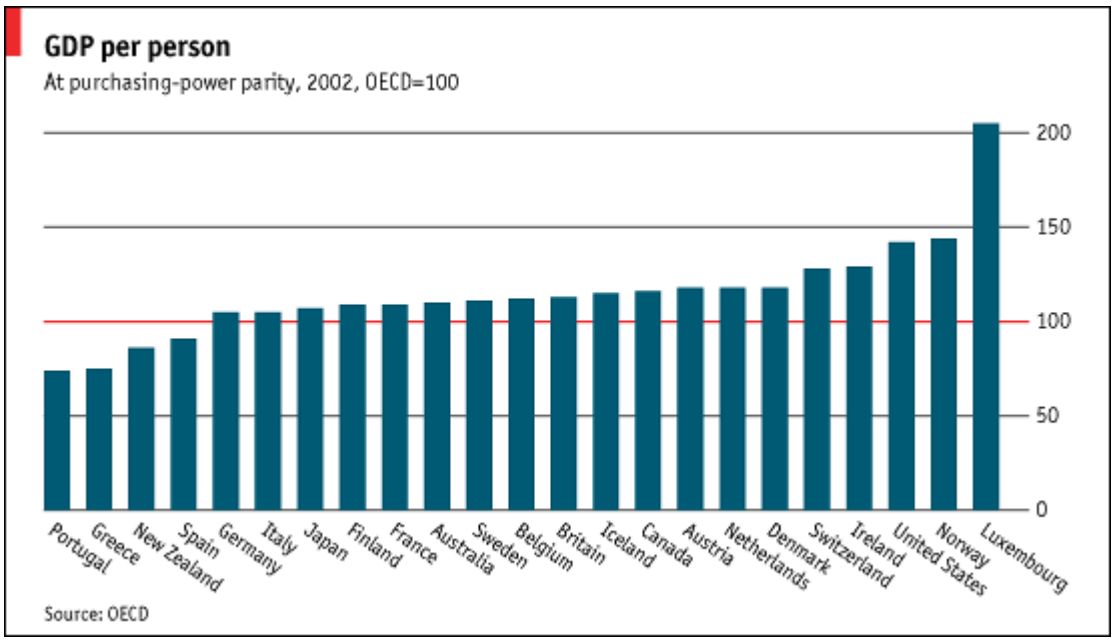
GDP per person

Jan 20th 2005
From The Economist print edition



The OECD has published new comparative figures for GDP per person, based on its estimated purchasing-power parities for 2002. These take account of price differences between countries. America's GDP per person is 42% above the average for all 30 OECD countries; Spain's is 9% below average. Since 1999, the previous benchmark year, Ireland has become a high-income country with a GDP per person 29% above the average.

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Money and interest rates

Jan 20th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Jan 19th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 3.3	+ 9.9	Nov	5.41	5.56	5.03	5.34	5.67	6.19
Britain	+ 5.2	+ 8.5	Nov	4.81	3.97	4.48	4.56	4.72	5.24
Canada	+12.1	+ 9.9	Nov	2.45	2.33	2.89	4.28	4.51	5.73
Denmark	+12.0	+12.5	Nov	2.25	2.30	2.42	3.63	4.27	5.05
Japan	+ 4.1	+ 2.0	Dec	0.02	0.03	0.10	1.35	1.34	1.43
Sweden	+ 2.2	+ 4.9	Nov	1.99	2.57	2.21	3.62	4.56	2.25
Switzerland	- 5.3	+ 1.2	Dec	0.73	0.24	0.75	2.07	2.54	2.21
United States	+ 5.4	+ 6.2	Dec	2.58	1.05	3.24	4.18	4.03	5.54
Euro area†	+ 9.7	+ 6.0	Nov	2.14	2.08	2.37	3.49	4.11	3.72

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.66%, Japan No. 266 1.35%. Central bank rates: US fed funds 2.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 20th 2005
From The Economist print edition

1995=100

	Jan 11th	Jan 18th*	% change on one month	% change on one year
Dollar index				
All items	89.8	89.6	+ 0.1	- 3.5
Food	82.1	82.6	nil	- 9.1
Industrials				
All	99.4	99.1	+ 0.3	+ 3.7
Nfa†	83.2	83.7	+ 4.6	-11.4
Metals	113.1	112.1	- 2.2	+16.2
Sterling index				
All items	75.5	75.7	+ 3.3	- 6.1
Euro index				
All items	89.8	90.5	+ 2.7	- 6.9
Yen index				
All items	99.2	97.8	- 1.7	- 7.8
Gold				
$ per oz	421.85	423.15	- 4.1	+ 2.9
West Texas Intermediate				
$ per barrel	45.78	48.32	+ 6.2	+34.2

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jan 20th 2005
From The Economist print edition

Market indices

		2004-05		% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
	Jan 19th	high	low				
Australia (All Ordinaries)	4,055.7	4,079.0	3,274.9	- 0.3	- 0.6	+22.7	+24.0
Austria (ATX)	2,437.8	2,475.1	1,568.9	+ 0.7	- 1.5	+57.8	+63.0
Belgium (Bel 20)	2,967.3	3,002.7	2,244.2	- 0.2	-19.4	+32.2	+36.6
Britain (FTSE 100)	4,818.3	4,854.1	4,287.0	+ 0.7	-30.5	+ 7.6	+12.8
Canada (Toronto Composite)	9,120.4	9,287.4	8,123.5	+ 1.1	-19.9	+10.9	+16.9
Denmark (KBX)	261.1	261.7	219.0	+ 1.1	-13.5	+22.3	+26.4
France (SBF 250)	2,673.3	2,677.9	2,386.1	+ 1.5	-39.1	+10.9	+14.6
(CAC 40)	3,869.0	3,881.4	3,465.3	+ 1.4	-44.1	+ 8.7	+12.4
Germany (DAX)	4,245.6	4,316.4	3,647.0	+ 0.9	-47.4	+ 7.1	+10.6
Italy (BCI)	1,503.8	1,503.8	1,239.5	+ 1.9	-31.1	+19.7	+23.7
Japan (Nikkei 225)	11,405.3	12,163.9	10,365.4	- 0.4	-70.7	+ 6.8	+11.7
(Topix)	1,144.3	1,217.9	1,022.6	- 0.3	-60.3	+ 9.6	+14.6
Netherlands (AEX)	353.9	364.8	310.7	+ 1.1	-49.5	+ 4.8	+ 8.3
Spain (Madrid SE)	968.0	968.0	804.4	+ 1.8	-15.6	+19.8	+23.8
Sweden (Affarsvarlden Gen)	223.6	225.8	188.5	+ 1.7	-44.1	+18.7	+23.2
Switzerland (Swiss Market)	5,749.5	5,934.4	5,309.7	+ 1.4	-31.7	+ 4.8	+ 9.6
United States (DJIA)	10,540.0	10,854.5	9,750.0	- 0.7	-10.1	+ 0.8	+ 0.8
(S&P 500)	1,184.6	1,213.6	1,063.2	- 0.3	-22.4	+ 6.5	+ 6.5
(NASDAQ Comp)	2,073.6	2,178.3	1,752.5	- 0.9	-58.9	+ 3.5	+ 3.5
Europe (FTSE Eurotop 300)*	1,053.3	1,056.5	940.9	+ 1.4	-38.2	+10.0	+13.6
Euro area (FTSE Ebloc 100)*	905.1	910.3	787.2	+ 1.2	-41.6	+ 8.8	+12.5
World (MSCI)†	1,141.5	1,170.0	997.0	- 0.4	-21.2	+10.1	+10.1
World bond market (Citigroup)‡	657.6	666.7	575.1	- 0.6	- 1.4	+ 8.9	+ 8.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jan 20th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Jan 19th	year ago	Currency units per $ Jan 19th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 18.0	Nov	− 36.2	Q3	− 6.0	− 5.4	86.2	89.7	1.31	1.29	2.46	1.71	1.28	+ 0.7
Austria	− 0.1	Oct	− 1.6	Oct	− 0.6	− 0.7	103.4§	102.8	0.77	0.79	1.44	–	0.75	− 1.5
Belgium	+ 21.4	Nov	+ 11.7	Sep	+ 3.6	+ 3.4	104.0§	102.9	0.77	0.79	1.44	–	0.75	− 0.1
Britain	−104.0	Nov	− 47.4	Q3	− 2.4	− 2.6	101.8	102.8	0.53	0.55	–	0.69	0.52	− 3.2
Canada	+ 52.8	Nov	+ 26.7	Q3	+ 2.8	+ 2.2	95.2	88.1	1.23	1.30	2.30	1.60	1.20	+ 1.1
Denmark	+ 9.5	Nov	+ 5.9	Nov	+ 2.9	+ 2.6	107.3	107.0	5.71	5.90	10.7	7.44	5.57	+ 0.9
France	− 6.0	Nov	− 3.4	Nov	+ 0.1	+ 0.1	107.6§	106.3	0.77	0.79	1.44	–	0.75	− 3.7
Germany	+192.7	Nov	+ 95.9	Nov	+ 3.1	+ 2.9	105.4§	103.9	0.77	0.79	1.44	–	0.75	− 3.9
Italy	+ 0.1	Oct	− 11.8	Oct	− 0.8	− 0.9	76.7§	75.8	0.77	0.79	1.44	–	0.75	− 2.9
Japan	+131.7	Nov	+167.7	Nov	+ 3.3	+ 3.4	138.6	136.1	103	107	192	134	–	− 6.5
Netherlands	+ 36.6	Nov	+ 21.0	Q3	+ 3.0	+ 3.0	103.6§	102.3	0.77	0.79	1.44	–	0.75	− 2.9
Spain	− 70.5	Oct	− 43.3	Oct	− 3.7	− 3.9	77.8§	77.0	0.77	0.79	1.44	–	0.75	− 1.1
Sweden	+ 22.5	Nov	+ 26.2	Q3	+ 7.6	+ 6.7	83.2	82.1	6.93	7.23	13.0	9.04	6.76	+ 0.5
Switzerland	+ 8.1	Nov	+ 44.7	Q3	+12.4	+11.9	113.6	111.3	1.18	1.24	2.22	1.54	1.15	− 1.6
United States	−653.8	Nov	−603.2	Q3	− 5.5	− 5.6	89.3	94.4	–	–	1.88	1.30	0.98	− 4.4
Euro area	+ 94.7	Oct	+ 47.3	Oct	+ 0.5	+ 0.5	93.9	92.4	0.77	0.79	1.44	–	0.75	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.8	Nov	+ 6.9	Nov	na	na	92.7§	81.6	0.77	0.79	1.44	–	0.75	+ 2.3
Greece	− 30.3	Oct	− 10.3	Oct	na	na	60.0§	59.4	0.77	0.79	1.44	–	0.75	− 5.3
Iceland	− 0.8	Nov	− 0.6	Q3	na	na	96.1**	93.0	62.6	68.8	117	81.6	61.1	+ 0.1
Ireland	+ 41.5	Oct	− 1.6	Q3	na	na	96.3§	94.5	0.77	0.79	1.44	–	0.75	+ 0.2
Luxembourg	− 4.4	Oct	+ 2.3	Q3	na	na	104.0§	102.9	0.77	0.79	1.44	–	0.75	− 0.4
New Zealand	− 2.8	Nov	− 5.3	Q3	na	na	106.8	104.1	1.41	1.49	2.65	1.84	1.38	+ 2.9
Norway	+ 34.0	Dec	+ 33.2	Oct	na	na	99.2	94.2	6.17	6.80	11.6	8.04	6.02	+ 8.2
Portugal	− 17.9	Oct	− 12.0	Oct	na	na	93.7**	93.2	0.77	0.79	1.44	–	0.75	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, November average. ‡OECD estimate. **IMF, September average.

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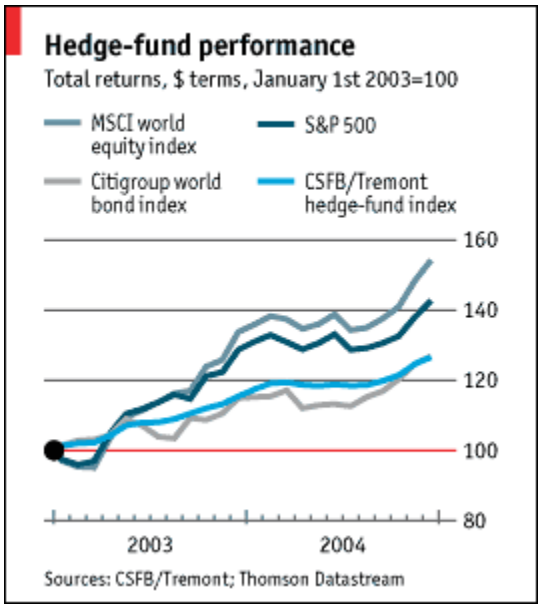
Hedge-fund performance

Jan 20th 2005
From The Economist print edition

According to data from CSFB/Tremont, hedge funds have underperformed America's S&P 500 and the MSCI world indices over the past two years. They offered the same return as global bonds.



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Overview

Jan 20th 2005
From The Economist print edition

China's foreign-exchange reserves are reported to have reached $609.9 billion at the end of 2004, over $200 billion higher than a year before.

India ran a trade deficit of $22.2 billion in 2004. By contrast, **Singapore** chalked up a trade surplus of $15.8 billion last year.

Consumer prices in **Brazil** rose by 7.6% in the year to December. In **Peru**, GDP grew by 8.4% in the year to November.

Industrial production in **Israel** rose by 13.7% in the year to November. In **Hungary**, it grew by 7.9% over the same period.

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FDI confidence index, 2004

Jan 20th 2005
From The Economist print edition

China remains the top destination for foreign investment, according to an annual survey by A.T. Kearney, a management consultancy. America comes second, followed by India, which has risen from 6th place a year ago. India now ranks second, after China, as a location for foreign investment in manufacturing. For the first time, Japan is ranked in the top ten. The survey is based on ratings from big firms of the countries they favour for foreign investment.

Economy

Jan 20th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+14.8	Nov	+ 2.8	Nov	+31.9	Dec	+45.9	2003	609.9	Dec
Hong Kong	+ 7.2	Q3	+ 3.4	Q3	+ 0.2	Nov	−12.4	Nov	+14.2	Q3	123.6	Dec
India	+ 6.6	Q3	+ 7.9	Nov	+ 4.2	Nov	−22.2	Dec	+ 3.5	Q3	125.2	Dec
Indonesia	+ 5.0	Q3	− 2.3	Aug	+ 6.4	Dec	+24.3	Nov	+ 4.0	Q3	34.6	Nov
Malaysia	+ 6.8	Q3	+ 9.9	Nov	+ 2.1	Dec	+21.2	Nov	+14.7	Q3	62.2	Nov
Philippines	+ 6.3	Q3	+ 9.0	Oct	+ 7.9	Dec	− 1.3	Oct	+ 4.4	Sep	12.9	Dec
Singapore	+ 5.4	Q4	+13.2	Nov	+ 1.7	Nov	+15.8	Dec	+29.0	Q3	112.8	Dec
South Korea	+ 4.6	Q3	+10.1	Nov	+ 3.0	Dec	+29.8	Dec	+27.5	Nov	192.5	Nov
Taiwan	+ 5.3	Q3	+ 5.4	Nov	+ 1.6	Dec	+ 6.1	Dec	+24.8	Q3	241.7	Dec
Thailand	+ 6.0	Q3	+ 9.5	Nov	+ 2.9	Dec	+ 1.3	Nov	+ 7.0	Nov	47.1	Nov
Argentina	+ 8.3	Q3	+ 5.4	Nov	+ 6.1	Dec	+12.2	Nov	+ 3.6	Q3	19.7	Dec
Brazil	+ 6.1	Q3	+ 8.1	Nov	+ 7.6	Dec	+33.7	Dec	+10.7	Nov	50.1	Nov
Chile	+ 6.8	Q3	+ 9.9	Nov	+ 2.4	Dec	+ 8.9	Dec	+ 2.0	Q3	16.0	Dec
Colombia	+ 2.4	Q3	+ 1.4	Oct	+ 5.5	Dec	+ 0.9	Oct	− 1.4	Q3	12.2	Dec
Mexico	+ 4.4	Q3	+ 5.4	Nov	+ 5.2	Dec	− 7.0	Nov	− 5.5	Q3	63.7	Nov
Peru	+ 8.4	Nov	+ 6.1	Oct	+ 3.5	Dec	+ 2.5	Nov	− 0.3	Q3	11.5	Nov
Venezuela	+15.8	Q3	+14.7	Oct	+19.2	Dec	+21.5	Q3	+14.4	Q3	17.2	Oct
Egypt	+ 4.3	2004†	+ 3.3	2004†	+11.9	Sep	− 8.1	Q3	+ 4.1	Q3	13.5	Sep
Israel	+ 3.4	Q3	+13.7	Nov	+ 1.2	Dec	− 6.8	Dec	+ 0.5	Q3	27.0	Dec
South Africa	+ 3.8	Q3	+ 2.3	Nov	+ 3.7	Nov	− 1.5	Nov	− 4.7	Q3	13.2	Dec
Turkey	+ 4.5	Q3	+ 9.6	Nov	+ 9.3	Dec	−34.2	Nov	−15.7	Nov	35.3	Nov
Czech Republic	+ 3.6	Q3	+10.9	Nov	+ 2.8	Dec	− 1.2	Nov	− 6.4	Q3	28.5	Dec
Hungary	+ 3.7	Q3	+ 7.9	Nov	+ 5.5	Dec	− 2.5	Q3	− 8.6	Q3	15.2	Nov
Poland	+ 4.8	Q3	+11.3	Nov	+ 4.4	Dec	− 5.6	Oct	− 4.3	Nov	35.8	Nov
Russia	+ 6.4	Q3	+ 6.0	Nov	+11.7	Dec	+84.6	Nov	+49.5	Q3	120.8	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.1	Q3	+ 4.5	Nov	+ 5.0	Dec	− 2.6	Oct	− 1.5	Q3	1.6	Nov
Latvia	+ 9.1	Q3	+ 6.0	Nov	+ 7.3	Dec	− 2.7	Nov	− 1.7	Nov	1.8	Nov
Lithuania	+ 5.8	Q3	na		+ 2.9	Dec	− 3.2	Nov	− 2.0	Q3	3.6	Nov
Slovakia	+ 5.3	Q3	+ 2.5	Nov	+ 5.9	Dec	− 1.2	Nov	− 0.9	Sep	13.4	Nov
Slovenia	+ 4.9	Q3	+ 3.8	Nov	+ 3.2	Dec	− 1.5	Nov	− 0.1	Nov	8.2	Oct
Pakistan	+ 6.4	2004†	+18.6	Jul	+ 7.4	Dec	− 5.0	Dec	+ 0.8	Q3	9.8	Nov
Saudi Arabia	+ 7.2	2003	na		+ 0.4	Oct	+59.1	2003	+28.0	2003	23.6	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Year ending June, new series.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

Financial markets

Jan 20th 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 19th		Dec 31st 2003	
	Jan 19th	year ago	Jan 19th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.5	2.35	1,278.6	-3.1	- 18.5	- 18.5
Hong Kong	7.80	7.77	14.6	0.87	13,678.6	+0.8	+ 8.8	+ 8.3
India	43.6	45.4	81.9	5.39	6,173.3	+1.2	+ 5.7	+ 10.6
Indonesia	9,160	8,405	17,191	7.56	1,027.8	+1.9	+ 48.5	+ 36.6
Malaysia	3.80	3.80	7.13	2.82	935.5	+0.2	+ 17.8	+ 17.8
Philippines	55.5	55.5	104.2	7.19	1,946.9	+6.9	+ 35.0	+ 35.0
Singapore	1.63	1.70	3.06	1.75	2,097.4	+0.8	+ 18.9	+ 23.8
South Korea	1,031	1,189	1,935	3.46	916.3	+4.1	+ 13.0	+ 30.6
Taiwan	31.6	33.6	59.3	1.35	5,895.4	+0.3	+ 0.1	+ 7.6
Thailand	38.4	39.0	72.1	2.43	709.0	+2.1	- 8.2	- 5.3
Argentina	2.94	2.89	5.51	4.50	1,337.0	-0.5	+ 24.7	+ 24.6
Brazil	2.71	2.85	5.08	17.74	24,271.0	-1.0	+ 9.2	+ 16.4
Chile	581	566	1,091	2.76	8,664.4	+0.5	+ 18.1	+ 20.4
Colombia	2,366	2,741	4,441	7.79	4,301.6	-1.1	+ 84.3	+116.5
Mexico	11.2	10.9	21.1	8.63	13,035.8	+5.7	+ 48.2	+ 48.3
Peru	3.26	3.46	6.12	3.03	3,823.1	-0.1	+ 57.0	+ 66.7
Venezuela	2,775§	3,180§	5,208	12.22	29,383.0	-1.8	+ 32.3	+ 36.0
Egypt	5.87	6.16	11.02	9.90	26,559.6††	+2.7	+128.2	+139.6
Israel	4.36	4.43	8.19	1.00	652.7	nil	+ 22.1	+ 23.0
South Africa	6.01	7.14	11.3	7.60	12,511.9	-1.7	+ 20.5	+ 33.8
Turkey	1.35**	1.33**	2.52	19.80	26,918.1	+2.5	+ 44.5	+ 51.5
Czech Republic	23.2	26.0	43.6	2.55	1,061.1	-0.5	+ 61.0	+ 77.9
Hungary	189	209	355	9.04	15,134.8	+0.5	+ 61.4	+ 77.0
Poland	3.13	3.73	5.88	6.65	25,390.5	-1.3	+ 22.0	+ 45.8
Russia	28.1	28.8	52.8	13.00	599.5‡	-1.0	+ 1.7	+ 5.7
EMF (MSCI)*	1.00	1.00	1.88	na	529.2	+1.3	+ 19.5	+ 19.5
EMBI+†	1.00	1.00	1.88	na	327.2	-0.2	+ 11.0	+ 11.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New lira. ††Jan 18th.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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